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# **East Europe**

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# East Europe

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## BULGARIA

### National Assembly Struggles With Ethnic Problems

91BA0003A Sofia TRUD in Bulgarian  
10 Sep 90 pp 1, 4

[Article by Syuleyman Gavazov: "The Law on Names; The Hidden Routes of a Political Speculation"]

[Text] The Grand National Assembly began its legislative activities with a great deal of emotion, verbal noise, and marking time. In cleaning the Augian Stables of the past, the parliament is forced to postpone the urgent problems of creating a legal structure for the economic reform. Instead, it has to deal with pressing draft laws that brook no postponement. The list of these urgent amendments to previously passed laws will include the demand of the Movement for Rights and Freedoms (DPS) on revising the Law on the Names of Bulgarian Citizens, which was passed at the last session of the Ninth National Assembly.

Because many of today's deputies in the Grand National Assembly are not familiar with the history and motives hiding behind the demand of the DPS parliamentary group, I would like to express my view on the true reasons for raising this question by Mr. Akhmed Dogan, leader of the DPS.

The origins of this story, like that of many other stories in Bulgaria, may be found in Todor Zhivkov's crazy fixation of creating a monolithic Bulgarian nation. We know the consequences resulting from this adventure both to domestic peace and the country's international reputation. On 29 December 1989, at its plenum, the ruling BCP [Bulgarian Communist Party] condemned illegalities related to the "restoration process" and passed a resolution on restoring the names of Bulgarian citizens, which had been changed by mandate. This just act, however, was violently opposed by the local nomenclature, which considered the decision a loss of its numerous privileges and an eventual exposure of its own guilt. It was at that time that the National Committee for the Defense of National Interests (OKZNI) was also born and that also bears a responsibility for the fact that at some time around the beginning of the year the country was on the brink of civil war. After tempestuous debates by the Social Council on National Problems, the National Assembly Declaration was adopted in which the resolution to restore the names was accepted by all social forces. Soon afterwards, the corresponding draft law was submitted by the Council of Ministers to the National Assembly. Unfortunately, the draft was entirely in the spirit of the "restoration process." Speculative debates and arguments broke out. The deputies, members of the commission, participated in them very sluggishly. They had probably been traumatized by the nationwide mistrust of their activities and were hastening to get rid of their obligations faster. The struggle was waged, in fact, between the representatives of

OKZNI and the Committee for National Reconciliation, of whose leadership I was a member. The leader of the DPS attended these meetings. Not once, however, did he take the floor to express an opinion or submit a motion. The dispute was mainly on the procedure for the restoration of the names, whether it should be done by the courts or administratively. Naturally, the representatives of OKZNI insisted on a complex judicial procedure, whereas we emphasized the administrative one. The speculative political objectives pursued by our opponents soon became clear. By complicating matters, they were not gaining anything but merely accumulating political capital. Did they not realize that people who had gone to concentration camps and jails because of their names and for the same reasons had lost home and property and engaged in "travel" would stop at some kind of judicial difficulties and abandon their names? Our position was clear: to put an end to this shameful story in the simplest possible way, calm down the people, and let them go about their work. In the final account, a compromise formula was adopted for a simplified administrative-judicial procedure that reduced the participation of the judicial authorities to pure formality. The further implementation of this procedure proved its effectiveness. There has been not even a single case of difficulty created by the judges in the consideration of such cases. And, if anyone lost as a result of such a procedure, the judicial authorities themselves took up the additional corrective work.

The second question on which there were arguments pertained to the endings of names (-ov, -ev, -ova, -eva). We supported the concept of free choice. Finally, Professor Vasil Mruchkov, the wise and skillful jurist, suggested a flexible formula that subsequently proved to be a delayed-fuse mine.

At its final session, the Ninth National Assembly passed the law and self-disbanded, and the country began to prepare itself for elections. It was at that time that Mr. Dogan emerged on the stage. Whereas throughout this time he had kept silent (at the end he merely signed the agreement of the definitive text of the draft law), all of a sudden he signaled to his people in the various local areas to reject the law and refuse to submit petitions. Furthermore, mass hunger strikes of Turks in opposition to the law started. This was pure provocation. The parliament had already disbanded, and, even with goodwill, there was no authority that could change the law. And had the leader of the DPS not signed the text? The objective was clear: to gain political capital before the elections so that the DPS may appear to be the only defender of Muslims in Bulgaria. The results of the elections indicated that the objective was achieved. But at what cost? The cost was an even clearer division of the people on the basis of ethnic features, intensified mistrust, reciprocal suspicions, and hostility.

Now, by once again raising this question in the Grand National Assembly, Mr. Dogan is fulfilling his electoral promise.

At a time when the Grand National Assembly must resolve problems that are so crucial to our country, raising the question of the names is clearly of a propagandistic and speculative nature. The previous course of the implementation of the law indicated that it does not create any difficulties whatsoever and that tens of thousands of persons have made use of it. On the contrary, practical experience has indicated that the facilitated judicial procedure offers a number of advantages as well. The citizen files a claim against an illegal decision by the state authority, and the court decides the case in his favor. The court decision is an additional guarantee that there can be no backsliding.

The Grand National Assembly may please Mr. Dogan and pass the administrative procedure. The Bulgarian Muslims would not benefit from this all that much. It is the DPS alone that will earn political dividends.

However, the other question, that of name endings, assumes a different, an essential nature. Such endings of the names of Bulgarian Muslims were adopted more than 60 years ago and have never been a subject of discontent, except to isolated intellectuals. Consequently, the question is artificially provocative, aimed at the even clearer alienation of the Muslim minority in our country. The practice of a national transcription of names of citizens of a given country is applied in most civilized Eastern and Western countries. It is related to their civic awareness. Under our circumstances, "ov" and "ev" are possessive suffixes that play the role of the genitive case and are a natural way to end names of Bulgarian citizens. That is why, fully aware of this, I voluntarily retained the ending "ov" for my patronymic and family names. Without these endings, nothing distinguishes me from the citizens of Turkey. This is a matter of personal choice.

Possibly the Grand National Assembly will pass this amendment, as well, considering the matter to be of minor importance. I am confident, however, that, in voting "for," the deputies will feel hurt by the fact that we are speaking of unity yet keep setting ourselves apart and considering ourselves different. I am concerned about the future. I do not know whether, along with its just requests, the DPS parliamentary group will not, in the future as well, raise questions that will divide us.

At present, the national awareness of many ethnic groups, suppressed in the past by the totalitarian structures, has tempestuously erupted in the entire former socialist camp, from Tashkent to Kosovo. In a number of cases, however, this awareness is degenerating into nationalism, which leads to bloody settling of accounts and provides favorable grounds for a great variety of petty politicians and adventurers for the fulfillment of their personal ambitions. So far there has not been any blood shedding in our country, but we have at least two opposite organizations, the OKZNI and the DPS, that are ready to lead their sympathizers into the "final battle." It is the irony of fate that these organizations are like Siamese twins and cannot exist one without the

other. The stronger the OKZNI may be somewhere, the more influential becomes the DPS, and vice versa.

Luckily, however, the mood in parliament is entirely different. Here tolerance and forbearance have become the common feature of the two "great" powers, something that is a guarantee for national consensus and for the prevention of interethnic hostility.

### **SDS Vice Chairman Ludzhev's Background, Political Views**

*91BA0026A Sofia OTECHESTVEN VESTNIK  
in Bulgarian 5 Sep 90 pp 1-2*

[Interview with Dimitur Ludzhev by Georgi Miloshev in Ludzhev's office, next to the president's office; date not given: "Dimitur Ludzhev for Otechestven Vestnik; Let Us Return Bulgaria Its Dignity; National Interests Stand Above Party Interests; How the New Government Could Be"]

[Text]

- Being "above the party" does not mean one is apolitical, just as "making bridges" does not mean that the distinctive features of different political forces would be eliminated.
- National interests now coincide with the fundamental and principle positions of the platform of the SDS [United Democratic Forces].
- We need a government with a program approved in advance by everyone—something like a "shotgun marriage."

I think these were the most important positions presented by Dimitur Ludzhev during the conversation we had in his office, situated next to the president's office. It is this proximity that prompted my next question:

[Miloshev] One time I heard you being presented as a political adviser, another time as an economic adviser to the president. What is your job?

[Ludzhev] You will not find it in the structure of the presidential office because I am not on the staff here and, correspondingly, do not receive any salary.

[Miloshev] But, nevertheless, you are in this office....

[Ludzhev] The president and I have known each other for many years, and I have always tried to help him, as much I could, with his political activities. Now I simply continue to do the same. And, if you must have a definition, call me a "personal adviser."

[Miloshev] Besides this, you are a member of the Coordination Council and Vice Chairman of the SDS parliamentary group, and one of the opposition's most energetic spokesmen. Shouldn't you undergo total change if a presidential adviser (even if not on the staff) must think above party lines?

[Ludzhev] It is time, once and for all, to clarify this so-called above party position of the president and, hence, of his collaborators as well. Some wish to turn Dr. Zhelev into an almost apolitical figure. This is absurd! It is written in the constitution that the president cannot have any leadership position in any party. He must be above any party, so that he may carry out his constitutional duties—to be an arbitrator and a guarantor, and to express the national interests. On the other hand, Zhelyu Zhelev is a member of the SDS and became head of state as a representative of the SDS. Moreover, he is a symbol of the SDS, and we should not confuse this with his duty to place national interests above party interests.

[Miloshev] I assume the same goes for you.

[Ludzhev] Even from the time of the "roundtable" I was trying to find the decision that would ensure that things would develop in a way that would allow implementation of the SDS program. But at the same time I paid attention to the objective distribution of power, and to the objective interests of the nation as a whole. In this respect, I am prepared for my new duties to a certain extent.

[Miloshev] What are the main problems in the relations between political forces from the time of the "roundtable" until now?

[Ludzhev] The most important one is the need to bridge the gap between the BSP [Bulgarian Socialist Party] and the SDS. At this time these two "shores" are separated by an enormous gap. It was formed during the preelection fight and is often beyond reason. It seems that all of us are (as a legacy of the life we led before) to a certain extent fierce and embittered; we see political opponents as enemies. I have read that Clemenceau and Briand would confront each other like lions in the heat of verbal battles in the French parliament, and afterwards they would calmly have coffee together and chat like friends.... Of course, making "bridges" does not mean that the distinctive features will be eliminated.

[Miloshev] Are you a nervous person, Mr. Ludzhev?

[Ludzhev] I cannot say that I am calm. I have been through a lot. And besides, my Zodiac sign is Aries. You know that Aries people are hot-tempered. But don't you agree, this marathon has lasted almost a year; even since before 10 November I have been going at an accelerated pace—first the elections and then afterwards, without any rest at all, the National Assembly.

[Miloshev] And otherwise, under normal conditions?

[Ludzhev] I think I am comparatively sociable. I have been the life of the party. I used to sing and play; I have two guitars at home.

[Miloshev] Was there a moment that was the "tuning point" in your life?

[Ludzhev] It was not a moment but a period. It started when I met Visotski (I think it was in 1967) and

continued until a trip to Moscow in 1972. The abundance of unfamiliar until then information, meeting people who think freely, reading the manuscripts of *Cancer Ward* and *The Gulag Archipelago*...

[Miloshev] Does the present Ludzhev resemble the former?

[Ludzhev] Not much. Sometimes I get reproached: "You used to be one way and now you are totally different...." Yes, I do have this quality. I change.

[Miloshev] Let us change the subject. What are your first impressions? Will the president and the vice president be able to work together—I mean work well?

[Ludzhev] They are already working well. The chairman [the term used here is "predsedatel"] has confidence in his deputy. Mr. Semerdzhiev is a loyal man.

[Miloshev] As a member of parliament and Zhelyu Zhelev's adviser, you maintain contacts with leaders from the left as well as from the right. What are your personal preferences?

[Ludzhev] One can work constructively with Andrey Lukanov. He is a well-prepared and modern man. The same goes for Georgi Pirinski and Aleksandur Strezov. Lately we have had useful collaboration with Kornezov and Aleksandur Tomov.

[Miloshev] Using the same criterion, can you give us some names from the SDS?

[Ludzhev] Petur Beron, Elka Konstantinova, Stoyan Ganev, Boris Kyurkchiev.

[Miloshev] What is your relationship with the Movement for Rights and Freedoms?

[Ludzhev] It is necessary to eliminate the present tension. And I believe that this will happen in the process of economic and cultural modernization of the regions affected by the "revival process," as well as together with the full restoration of the rights of all Bulgarian citizens. During the preelection campaign, the tendency toward politization of the Movement for Rights and Freedoms existed; now it has quieted down.

[Miloshev] And now the question that worries us most of all: the setting up of a new government. Do you think Andrey Lukanov will succeed?

[Ludzhev] I do not dare commit myself with a specific answer.

[Miloshev] Do you still feel that the best alternative is a "program" government that would carry out every detail of a program, previously approved by parliament, and then leave (for example, after five or six months)?

[Ludzhev] This is the ideal alternative. I remain categorically against a coalition in the traditional sense of the word. Coalition is impossible in our country. The executive power is still in the hands of the ruling party. Let us

not kid ourselves; we need to eliminate the past political structure, and the only guarantee for this is to implement the SDS's program directives. The problem is not only a party problem; it affects the whole nation. As opposition we have the responsibility to make sure the old group doesn't manage to restructure itself in such a way as to become a new governing force and to undermine political life all over again. On the other hand, also in the national plan, we are responsible for stopping the economic decline and overcoming the crisis so that our people do not go hungry this winter. We must return Bulgaria its dignity. And this will happen only if it truly follows the road to democratization. This is why, I emphasize, Bulgaria's interest at the moment is to implement the fundamental and principle positions of the SDS program. All these, however, are ideal structures. Human factors such as emotions and ambitions, party and group interests, exert their influence in real political and economic life.

[Miloshev] What kind of individuals would make up such a government? Only narrow specialists?

[Ludzhev] Why? We have a sufficient number of people who are politically and publicly prominent and who at the same time are good specialists.

[Miloshev] I think we need a few more explanations: What is the difference between a program government and a coalition government?

[Ludzhev] With a program government there is no blurring of the borderline between the ruling party and the opposition, and it is there to do only the job given to it by parliament. A number of other countries (France, Portugal, Spain) have adopted such a decision when there was incompatibility between political forces, and the problems could not be postponed—something like a shotgun marriage.

[Miloshev] In any case, when will we be able to greet a new government?

[Ludzhev] Very soon, if Mr. Lukanov decides to create a Socialist Party cabinet again. But if he, if the BSP adapt the alternative we just spoke about, then perhaps more time will be needed because, in addition to everything else, we will have to reach agreement on the following issue: a government dominated by the SDS.

## CZECHOSLOVAKIA

### Klaus Criticizes Excessive Reliance on State

'91CH0007A Prague LIDOVE NOVINY in Czech  
20 Sep 90 p 1

[Article by Vaclav Klaus: "Socialism Is Dead, but the Leviathan Lives On"]

[Text] This [Leviathan] was the name given by Professor James Buchanan, holder of the Nobel Prize for economics, specialist in the field of public finance and

collective choice, defender of the market and an opponent of state intervention in the economy, to his prestigious lecture in Sydney, Australia, in March of this year.

Some readers know that *Leviathan* (with a capital L) is the title of a book by the English philosopher Thomas Hobbes, published in 1651, that includes, in addition to a very strict criticism of the morality of the times, the idea that the state must contribute with its legislative and other activities to the formation of a better society. A leviathan (with a lower case l) is a mythical sea creature sometimes used as the symbolic personification of the Lord, the enemy, the Antichrist.

For Buchanan the leviathan is a symbol for an expansionist state functioning not in a neutral fashion, not asserting general interests, but rather the interests of specific politicians and the pressure groups they represent.

Events of recent months and years in our country and abroad show that the century long (or short) belief in socialism (replacing a lost belief in God) is ending. In contrast to religion, which has promised no specific, concrete results in this world, socialism made the mistake of promising something tangible. Empirical experience has shown that it has been unable to fulfill its promises. Various socialist thinkers have of course tried to redefine the word socialism to give it a new, uncompromised meaning, but it looks like they have already failed. They would have to succeed in erasing from people's minds the experiences of many decades. They would have to find a new Marx, someone who could wrap in a similarly genial way an erroneous economic analysis in pseudoscientific rhetoric, and who could again convince the romantic dreamers amongst the intellectuals that it is possible for the state to organize life better than we are capable of organizing it ourselves, based on voluntarily agreed upon contracts, membership in various societies and associations and, mainly, though participation in goods exchanges organized based on a market.

James Buchanan justifiably asks whether the predominant rejection of socialism means only the rejection of explicit socialism in the countries of Eastern Europe and the USSR, or whether it means the concurrent rejection of a related socialism, the much more deeply rooted system of thinking (existing of course even outside of Europe), which doubts the very foundations of individual freedom in the political and economic areas.

This brings us back to the leviathan. The rejection of the external institutions of Eastern European socialism still does not mean the actual rejection of romantic illusions concerning the possible role of the state in society (and economy) or the acceptance and profound comprehension of an individualist philosophy attesting to the indispensability of impersonal market mechanisms for the most efficient utilization amongst millions of people of broadly dispersed information and knowledge, which

cannot be repackaged as some kind of central "collective" wisdom. This is an area throughout the world, but especially in our country, in which there is much oversimplification and lack of understanding. The verbal renunciation of the socialist faith does not imply the adoption of another faith.

A lack of faith in the market persists, an unwillingness to put our fate in the hands of an impersonal mechanism, a nihilistic approach to a spontaneously generated system of economic organization and coordination. There is faith in the efficiency of policy (not necessarily socialist!) and in the potential for the political resolution of economic problems. Overcoming this attitude will require a much more profound revolution than the one that occurred on 17 November, a revolution that will not be visible on the squares or in mass demonstrations but which will take place within each of us, will take place over a long period of time and the results of which will be in the balance for some time.

Economics has for a long time written about the advantages of the market (as well as its faults and failures), but that has not told us much about the state. This is why the founding of the school of so-called collective choice at the end of the 1960's by none other than James Buchanan, whose formulation I cited at the beginning of this article, had quite a revolutionary impact. Buchanan and his followers have succeeded in convincingly demolishing the remains of the socialist myth, in pointing out the fundamental errors of a politicized social life and the dangers when state power is wielded in the interest of various power groups, even when it looks like it is neutral and is representing the interests of us all. The analysis of politicians as normal people maximizing their own benefit explained in a completely new way the reasons for the failures of policies (and politicians) and provided additional arguments to help in overcoming the residuals of socialism in us. The external rejection of socialism is still stronger in this country. We have not yet come to understand the state as a leviathan, as an instrument of special interests, or the need to limit its expansiveness.

#### **Moravian Writer Favors Brno as Federation's Political Center**

*91CH0014A Prague LIDOVE NOVINY in Czech  
25 Sep 90 p 7*

[Article by Jan Trefulka: "I See What I See"]

[Text] Thanks to German friends from Munich, I saw within two days two memorials to the German influence on European history: the concentration camp Dachau and Walhalla on the Danube near Regensburg. Bestiality, a perverted desire to see the suffering and humiliation of fellow men, thirst for power, those are unfortunately without doubt embedded in the basic genetic code of the human race and only a hypocrite can reproach the Germans for it; the German contribution to the history of horror and the horror of history is their planning and

efficient organization, literally making an industry of torture and irrational murder. That is concentration camp Dachau. Walhalla is a monument to vainglorious megalomania, and therefore it does not lack a comic dimension. In the first half of the last century, the Bavarian King Leopold first built a copy of a classical temple and to this day the Germans place in it plaster or stone busts of their demigods. The latest one, quite recently, was a ceremonial installation of a portrait sculpture of—Albert Einstein. What satisfaction, what honor! What comedy? I do not know. I want to believe that it is an expression of a real turnaround in the thinking of a new German generation. The old gentleman is modestly and quietly smiling through his beard, perhaps also because he is in respectable company, right next to the abbot of the Old Brno Monastery, Gregor Mendel. Other than that, there are two Czechs in the German Walhalla, Marshals Wallenstein and Radezky. Do not laugh. They really could not put Comenius there.

I travelled through Bavaria and Baden-Wuerttemberg in the company of German writers who were forcibly expelled from our country as children. Neither did exiled authors who were with us, Ota Filip and Ivan Binar, leave their home voluntarily. We had frank discussions about the past, the present, and the future, often venomous and ironic, but always with the good will to find a promising starting point. We were a small group and we appealed to a small circle of lovers of literature on both sides of the border. Nevertheless I think that Dr. Becher, acting secretary of the Adalbert Stifter Club, succeeded, in cooperation with the Czech PEN Club, the Czech Literary Foundation, and towns in Germany and Bohemia, in realizing an undertaking that has no parallel in the Czech-German cultural relations, and for many decades was simply unthinkable. Paradoxically, it was precisely the extreme positions, in which the nationalistic hatreds were played out, the Nazi occupation, and the subsequent expulsion of Germans from Bohemia and Moravia, that contributed to the fact that today we realize that mutual good relations between neighbors are essential for us as well as for peace in Europe, and that we cannot do without them in the future. I belong to a generation that spent its entire adult life in a domestic concentration camp and understood their relationship to the Germans in a very simplified manner, mostly as defense against expansion. I admit that it was only during this trip that I realized that Czechs, too, have been present on the other side of the border for many centuries, that a part of our history took place there, and that not only the mere act of expulsion but also the barbed wire along the borders was for the Germans as well a painful matter which restricted and distorted their otherwise certainly relatively contented and rich life. I therefore believe that after centuries and decades of mutual wrongs and slights, healthy as well as rapacious and militant rivalry and confrontation, an era of harmony and maturity, mutual respect and esteem has begun. I repeat again, I believe it—because it is never certain, of course, that events will not change course, that



they will not become dominated by unscrupulous money-grubbers on one side and smart tricksters on the other, instead of by cultured people who are as a rule nonaggressive. That would be a tragedy. Even in the short excerpts, read by Barbara Konig, Peter Becher, Rudolf Mayer-Freiwaldau, and others, a Czech listener could hear so many familiar themes, experiences, feelings, and small pleasures, characteristically and unmistakably Central European, that one can hardly doubt how closely we are bound by fate, for better or worse.

Whenever I saw during my trip the colorful shield with the legend Freistaat Bayern (Free State of Bavaria), I had to willy-nilly think about the situation at home, which, as far as the new administrative structure and the framing of the new constitution is concerned, I do not like at all. How about if we were to start thinking in a totally nontraditional way? Why could not a Free State of Slovakia, whose equal partner on the territories of Bohemia and Moravia would not be a Czech Republic but other federal states, exist within the framework of the Czechoslovak Republic (without a hyphen)? Why could not the administrative center of the Czechoslovak Federal State and the seat of the not large but authoritative in the area of its competence federal government and parliament be Brno, whereas Prague would of course remain the capital of the Czech State and the spiritual center of Czechoslovakia, a treasury of culture, which then would have enough of really representative space for putting on display all its treasures which now are rotting in depositories? Why could not Olomouc be the administrative center of Moravia-Silesia, so that smaller Moravian towns need not be afraid of Brno's centralism? The Chamber of the People could be abolished, the Slovak Parliament and the state assemblies could be small, only semiprofessional bodies. Then we could be spared the nationalistic discussions and emotions. I do not know why the Slovaks should object to this practical compromise any more than the Czechs, let alone the Moravians. You can think what you want, that I am crazy—I see what I see: The current situation must be changed radically but not hastily and not without a broad discussion, so that the old structures and mafias would at last lose their influence.

### **Civic Forum's Devaty Views Slusovice's Renewed Spot in Limelight**

#### **Communist Haven Alleged**

91CH0013A Prague ZEMEDELSE NOVINY  
in Czech 15 Sep 90 p 3

[Interview with Stanislav Devaty, Civic Forum, by Jaroslav Smid and Marta Pavlikova; place and date not given: "Moral Blot on Slusovice"]

[Text] Internal police is composed of former State Security Members.

Yesterday, during the meeting of the club of Civic Forum representatives, we asked representative Stanislav Devaty to talk to us about Slusovice.

[ZEMEDELSE NOVINY] Mr. Devaty, you did not give up your suit against the Agrokombinat Slusovice, although you really won it already. Do you have some particular reason for it?

[Devaty] Yes. I have proof that already in 1989 the cooperative used all the pressure it could muster to try to influence through the CPCZ [Czechoslovak Communist Party] Kraj Committee in Brno the prosecution as well as the court to rule against me, which was confirmed in February 1990 when both the representatives of the court and the prosecutor's office admitted that they were thus influenced. For that reason I lodged a complaint against the chairman of the cooperative, Frantisek Cuba, and other coworkers in the management of the cooperative, and this complaint is being processed by the prosecutor's office in Ceske Budejovice. Today things have gone so far that my friends in Zlin sued the attorney for Slusovice, Dr. Kalanc, for slander, because the cooperative's management said that I was a member of State Security.

[ZEMEDELSE NOVINY] Readers are not sure why you continue with your suit?

[Devaty] Because I know that even today there are many people in Slusovice who are being treated the way I was, and who never had the courage to stand up to the injustice and to the management of the cooperative.

[ZEMEDELSE NOVINY] Nevertheless, Chairman Frantisek Cuba did not throw you overboard?

[Devaty] Two weeks after I joined the AK Slusovice in 1984, the state police came and forcefully demanded my dismissal, which Mr. Cuba reportedly prevented at that time, saying that he does not pay people for their opinions but for their work.

[ZEMEDELSE NOVINY] And you feel injured in spite of that?

[Devaty] I received Kcs 120,000 in damages as a result of winning my suit against Slusovice, but I am continuing my dispute with them. I was thrown out of work immediately after I became the spokesman for Charter 77. I was particularly sorry that the cooperative's management organized a kind of charade, in which about 600 members of the cooperative took part, and in which I was expelled "by popular vote". The reason being that I refused to join the remote workplace in Poprad. My suit goes on, and I can tell you that Docent Trnka (now the chairman of the Czechoslovak Agrarian Party and a former economist with the AK Slusovice) submitted to the Federal Ministry of Interior a document which is said to prove that I used to work for State Security. My signature on that document is obviously forged. An expert analysis proved that not only the signature but the entire text of the document is a forgery. And that is why

the town prosecutor's office in Prague has initiated a prosecution of the thus far unknown perpetrator according to Paragraph 206, which means slander.

[ZEMEDELSKE NOVINY] Nevertheless, Slusovice has the reputation of being an economically successful enterprise. What do you say to that?

[Devaty] In my opinion, Slusovice was created as a model for all of CEMA, and therefore they could not avoid pressure from the powers that be. And that continues. It is well known that comrades Hegenbart, Zajic (former members of the CPCZ Central Committee), Cakajda, Prochazka, as well as Docent Hurta are working in the new joint-stock company. In addition I learned that a number of former State Security members are employed in Slusovice, even those who decidedly used force to repress the opposition prior to 17 November, including the chief of the Operations Directorate of National Security Corps Gottwaldov, Mr Kylian, who was also the chief of personal security for Milos Jakes. To put it briefly, Slusovice are building a professional internal police which is supposed to see to it that no information leaks out. These people meet in a restaurant by the dam—and their conspiratorial center is called Semik. Its chief is the former deputy commander of State Security in the district, Milos Mysak.

[ZEMEDELSKE NOVINY] Are you perhaps trying to say that such relationships could influence also the management of the cooperative?

[Devaty] I am convinced that as soon as the power structures were cut off, the cooperative ceased to prosper. Only the future will show if it can hold out. In the meantime I am told that it does not have money to pay wages, that it has been in the red for at least five months, and is said to have debts in the billions.

#### Attacks Seen as Unjustified

91CH0013B Prague VENKOV in Czech 19 Sep 90  
pp 1, 3

[Article by Eng. Josef Hubacek, doctor of science candidate, Prague: "Liquidation of an Entrepreneurial Genius"]

[Text] Whether we want to or not, Slusovice, as a result of the impressive [illegible word] growth of its cooperative kombinat entered into the conscience of a considerable part of our public. And the fact that an absolute majority of the public admired it and rooted for it, and that others, mostly because of a lack of objective information and often also because of unsubstantiated rumors spread by incompetent or envious people, indiscriminately denounced it and belittled its successes, does not change that reality in the least.

Nevertheless, in the course of time Slusovice became very successful, top rated, and within the framework of former CEMA countries, a singular enterprise, admired and acknowledged abroad as a progressive enterprise. A

rational and effective production-economic and organizationally well-managed structure, based on a balanced a proper combination of centralization and decentralization of production and management, with a strong application of internal and interenterprise cooperation, high professionalism and expertise of the economic-technical managers, introduction and efficient use of advanced machinery and technology, an uncommon work discipline, creation of proper conditions for the introduction of innovations, conceptual strategic planning, a well-planned effective system of rewarding internal experimental research, utilization of the latest scientific and technical knowledge, an extensive social program, a generous support for sports and culture, and last but not least, the giving of precedence to the economic, rather than the political or ideological, viewpoint, all these are factors which became the result, as well as the precondition, of the developing entrepreneurial activity.

And, what is most important from the economic point of view, the production, economic, and organizational management was based not on a centralist but on an absolutely decentralized concept, with a significant utilization of personal authority and responsibility by the individual in charge of a manufacturing or management sector, as it used to be, and still is, at Bata, from which this practice has been de facto derived. Let us ask ourselves—what provides better preconditions for implementing plans for privatization than a structure of production and economic activity such as this?

The fact that the agrokombinat practices cooperation, particularly with the food processing industry, is precisely more than desirable, and from the viewpoint of our reformist economic efforts and desired trends nothing if not absolutely essential. In the end, that is what large agricultural enterprises in all countries, particularly those with the most advanced market economies, are doing, not forgetting the fact that it is also the future goal of the agriculture and food processing complex.

A high share of associated productions, overwhelmingly directed toward satisfying not only the needs of Slusovice but the entire Czechoslovak agriculture industry, unfortunately is still not appreciated.

And in no way can it be disregarded that the unified agricultural cooperative AK Slusovice, because of its production and economic results and profitability while having an incomparably lower number of employees, in view of its achieved output (Kcs6.5 billion), absolutely, and all the more relatively, looms above most of our industrial giants.

Maybe the almost too great a restraint was not appropriate after all, that the unified agricultural cooperative AK did not take a strong stand against the various rumors that were discrediting it, particularly about the alleged extraordinary state subsidies or even financial

machinations, and that it did not protest them vehemently. That makes it all the more puzzling that the appropriate representatives of the highest political and economic controlling agencies, including the Ministry of Agriculture and Food, never made a statement about Slusovice. The judgement, evaluation, and drawing of conclusions was and is being left to those who do not have enough objective information, never visited Slusovice, and through their unfounded arguments are spreading untrue stories and rumors and misleading the public.

One thing is strangely suspicious, however; tens and maybe even hundreds of controls and audits have followed each other, but nothing serious was found.

Following the president's speech on the occasion of the August events, where he also made a negative remark about Slusovice, somehow everything started to move, but many DAK [Cooperative Agrokombinat] members cannot reconcile themselves to the subsequent departure of Mr. Cuba from his position of chairman of the unified agricultural cooperative AK Slusovice. If only because in the secret ballot in the spring he was given a vote of absolute confidence and was elected by 75 percent of the qualified voters. In this connection it is alarming that from the scene (let us believe that only into the background) departed an extraordinarily able man, without exaggeration an entrepreneurial and managerial genius. His decision certainly was not easy. After all, he left behind something to which he devoted all his strength and skills (without time off, after working hours, including sleepless nights)! Thus left a man who gave preference to able people—professionals. He always hired able people, perhaps even people without party affiliation, people expelled or struck out of the CPCZ, even active dissidents. That of course could not have gone on for years without pressure from the "top".

What nobody can ever deny is the fact that Mr. Cuba is, without exaggeration, in the same league with such greats as, for example, Mr. Skoda, Tomas Bata, and others. However, what is startling in this connection is the fact that instead of using Mr. Cuba and people like him to help with the development of our economy, we hold them in contempt, and that is neither good nor encouraging.

#### **Reader on Curious Reception for New Ambassador to Canada**

91CH0007B Prague LIDOVE NOVINY in Czech  
26 Sep 90 p 6

[Article by Arnost Wagner, Ottawa: "Ordainment With a Scandal"]

[Text] So they have "ordained" a new ambassador for us in Canada. Much has been said and written about his excellency, many protests and much behind the scenes skirmishing, but he is here. Early in the spring Canada was informed of the intention to name Igor Kratochvil as

the ambassador, but either it was too far for him, or the government for its own reasons decided to name someone else.

The victor in the second round was the former chairman of the Slovak National Council, Eng. Rudolf Schuster, and even though a national organization (until recently in exile) protested his nomination, the Foreign Ministry didn't want to back off.

Mr. Schuster was preceded by quite a reputation. He writes detective novels, changes jackets, then is the darling of Slovak separatists both in Canada and in Slovakia, dresses well, plays excellent tennis, and is a former member of the Slovak Communist Party Central Committee [CPS CC]. Since his arrival in Ottawa he has confirmed only his tennis ability and his taste in clothes. Still to be seen is if he is really the darling of the Slovak league. Currently he is playing no favorites, as indicated by his guest list for the first "countrymen" reception. Those invited included representatives of the Slovak League and the World Congress of Slovaks, as well as representatives of the Czechoslovak Association of Canada. The Association and other societies ignored the invitation, in contrast to Slovak League functionaries who attended in great numbers.

When the reception was held Karolina Zarzycka was visiting Canada at the invitation of the Czechoslovak Association. She came here to rest after a long hospital stay caused by a brutal beating from the Prague police on 17 November. Karolina thought it would be a good idea to let the reception attendees know something of the past of his excellency, so she welcomed guests under the roof of the embassy with a sign reading: "Are you aware that you are the guests of a recent member of the CPS CC?" Many knew this. Jan Geleta, a functionary of the Canadian Slovak League also knew and vehemently defended Eng. Schuster by turning on Karolina and destroying her sign while yelling vulgar insults. The slap he was working up to was prevented by the embassy attache, Alex Murin. Jan Geleta's statement that the police should have given her a worse beating on 17 November took the breath away from the seasoned combatant with the Prague police. It was the ambassador himself, Mr. Eng. Schuster who ended up consoling the crying Karolina Zarzycka with her torn sign.

#### **Historians Trace Roots of Slovak Nationalism**

91CH0002A Prague UCITELSKÉ NOVINY in Czech  
14 Sep 90 pp 8-9

[Article by Dr. Josef Harna and Dr. Ivan Sedivy, doctor of science candidates, of the Historical Institute of the Czechoslovak Academy of Sciences, Prague: "The First Republic and the Slovak Question—Historians Speak on the Origins of National Coexistence"]

[Text] Even though the current wave of nationalism appears to be an inevitable accompanying phenomenon of posttotalitarian regimes in Eastern and Central Europe, the specific characteristics of Czech and Slovak

relations also consists of, among other things, the amount of interest built up on political debts of the past. To understand the emotions which this arouses, it is necessary that we return to what drew our nations together and also to making clear the differences and properties of the development. We hope that through the prism of a historical perspective it is possible to contribute to an explanation of current problems and to a more objective assessment of ways out of them. We therefore asked the employees of the Historical Institute of the CSAV [Czechoslovak Academy of Sciences] to acquaint our readers with the period in our history which was decisive for the joining of the two nations into one state and with the factors which acted in the opposite direction.

Today, when the questions of further coexistence of the Czech and Slovak nations in a common state is a pressing issue in our public's mind, the importance of a deeper knowledge of the development of the relations between those two nations in the past also increases. For mutual understanding and coexistence we must know from what needs and under what circumstances was born the idea of Czech-Slovak mutual relations, through what sidetracks it went, and what forces strengthened or, on the contrary, weakened and disrupted it. In presenting just these negative factors which lie like a shadow on the historically positive balance sheet of the Czechoslovak state, innumerable times we were reminded, for example, of the role of Czechoslovakism, Prague centralism, in recent times even the negative effect of a totalitarian regime, etc. On the other hand, however, in the background and often deliberately bashful was an avoidance of the role of one of the most powerful factors of the Slovak political spectrum which left its negative signature on the relations between our two nations, the role of the Slovak People's Party whose policies consciously weakened the resistance of Czechoslovakia in the crisis period of Munich and contributed in its own way also to the temporary dissolution of that country. It is all the more important as right now the descendants or imitators of that movement are rearing their heads and there is much in their behavior that is analogous to their model from between the wars. Before we get to the core of the problem, however, it is necessary that we at least briefly introduce you to the Slovak People's Party. In order to do this we must return for at least a few sentences back to the period before World War I, to the environment of Austro-Hungary.

#### **The Roots and Prerequisites for the Origin of the National Movement**

While at the beginning of the 20th century the Czech nation was one of the most developed ones in the Habsburg monarchy, the Slovaks were fighting against the pressures of the Hungarian Government to take away their sense of nationhood in order to maintain a bare national existence. The dynamics of the development of the two nations at that time were diametrically opposed in the economic, social, and cultural fields. In the latter sphere, for example, among the most blatant acts of the

pressure to become Hungarian was the educational laws of Duke Appony of 1907 which in essence did away with the remnants of Slovak national education. The desperate situation of the Slovak national was well described by the famous Scots historian, journalist, and, among other things, ardent Slovakophile, R. Seton-Watson, when he stated that in Slovakia at that time there existed only several hundred families who were conscious of their Slovak nationality. Naturally he had in mind the state of the Slovak intelligentsia which is the bearer of the national consciousness and not the entire national base, all the members of the common language group.

The complex position of Slovak society was also reflected in its undeveloped political structure. Only slowly and with difficulty was there a crystallization of its individual political currents. This is also true of the beginnings of Slovak political Catholicism. It was originally connected with Zichy's Hungarian People's Party. At the point where the Hungarianization course prevailed in that party, the nationally aware Slovak representatives of the Catholic political movement left it and from 1905 on operated within the Slovak National Party as its distinctly formed wing. It did not have enough strength to set up its own party as was shown by, among other things, the attempt to create its own party in 1913. It broke its bonds with the Slovak National Party only after World War I.

The Catholic priest Andrej Hlinka soon became the leader of Slovak Catholicism. He was not one of the founders of the party since not long before that even he rejected Slovak national demands. Despite his political awakening and after his national conversion and active resistance to the national oppression of the Slovaks, by 1914 he had become one of the most important personalities of Slovak political life. The Hungarian state and religious agencies persecuted Hlinka for his activities. In 1906 Hlinka was suspended from his priestly offices and rank (*ab officio et ordine*) by the Bishop of Spisska, Parvy, and in December of that year in the Ruzomberok trials he was sentenced to two years in jail for agitation before the elections. Before he began serving the term he contributed to Czech-Slovak relations when he undertook a speaking tour of Bohemia and Moravia with the help of Catholic friends from the Czech lands. His speaking out on the impressions made by the bloody events in Hlinka's birthplace of Cernov in which an action by the Hungarian authorities killed 15 people became an opportunity for the demonstration of the Czech people's sympathy for the Slovaks.

#### **Steps Toward Unity**

World War I and the changes which it brought with it created the preconditions for Czechs and Slovaks to begin to consider more realistically the possibilities for living together in a single state. On 30 May 1918 in Pittsburgh in the United States, representatives of American Czechs and Slovaks, with T.G. Masaryk present, concluded an agreement in which it states, among other

things, that "Slovakia will have its own administration, its own national assembly, and its own courts" and that "detailed provisions for establishing the Czecho-Slovak state are left to the free Czechs and Slovaks and their authorized representatives." The Pittsburgh agreement was still not a legal state document, but just a political program of organizations of fellow countrymen which Masaryk cosigned and one cannot extrapolate long-range political obligations for the future from it. Its final version was moreover not signed until November 1918 and only then was it also submitted to Masaryk for signature.

On 30 Oct 1918 the representatives of the Slovak nation embodied their desire for a common country for the Czechs and Slovaks in the text of the famous Martin Declaration. The Martin assembly was also attended by Andrej Hlinka, who declared there that "we are one and will remain one, no one and nothing will tear us apart." Some participants of the Martin council remained over in the town until the next day so that they could discuss the relationships of centralism, autonomy, and self-administration in the new country from the standpoint of the Slovaks' needs. It was this nonbinding discussion which in the future became the basis for stories about alleged secret codicils to the Martin Declaration which supposedly stipulated that after 10 years the Slovaks could again decide whether they wanted to live in one country with the Czechs. However, no one has ever succeeded in demonstrating the existence of this codicil. Andrej Hlinka himself said of the Martin Declaration in parliament as late as 1921, "We joined ourselves to the Czechoslovak Republic without any kind of mental reservations... The Martin Declaration for us had no hidden clauses, but contained only our feelings and love for the Republic."

In the spirit of the concept of a unified Czechoslovak nation which prevailed in the foreign action groups and which was adhered to by many of the leaders of domestic Slovak political representation as well, Czechoslovakia was created as a centralized unitary state. In this sense, the basic reality was not respected, that of a heritage of duality and, what was still more important, the historical existence of a self-evident Slovak nation. And thus, despite the fact that the birth of Czechoslovakia meant protection of the Slovak nation against destruction, it is no wonder that soon there appeared the natural demand of respecting the specific characteristics of Slovakia and a demand for its autonomy. Lack of understanding for these demands lead to a growth in mistrust, bitterness, and constant internal political tension. The most important representative of Slovak autonomy came to be the Slovak People's Party founded 18 Dec 1918.

#### Reality in the New State

Shortly after the establishment of the Republic, the ministry with full power for the administration of Slovakia took over control of the state administration. It was headed up by one of the most emphatic proponents of the concept of Czechoslovak national unit, Vavro

Srobar. The actual application of the strict centralist model of government at the beginning did not cause any problems. It was necessary to extricate Slovakia from the Hungarian hegemony with the assistance of the Czechs. We believe that there were also a number of personal reasons for the first disruptive elements which crept into the relationship between the state and the People's Party. In the performance of his duties Minister Srobar, in contrast to the actual distribution of political forces in Slovakia, leaned almost exclusively on the Slovak Hlasist and Prudist intelligentsia and practically excluded the Slovak clerics from any share in the power. He overlooked the fact that the Catholic-oriented wing of the Slovak National Party had, in contrast to the Czech popularists, performed unquestioned services in the creation of the republic. Disputes also arose in the question of arranging religious affairs in Slovakia. Hlinka also felt himself to be personally injured as Srobar, without regard to his position and ambitions, insensitively offered him only the office of secretary for Catholic Church matters.

The first serious crisis was caused by Hlinka's trip to the Paris Peace Conference in the summer of 1919. Hlinka's closeness at that time to his coworker Frantisek Jehlicka, a former professor of theology at the Pest University and more Hungarian than Slovak was behind his trip. He also acquainted Hlinka with the text of the Pittsburgh agreement through the chairman of the American Slovak League, Albert Mamatey. Up to that point Hlinka had not know about it. Hlinka and Jehlicka departed in secret as the leaders of a small group and without the Czechoslovak Government being aware of it went to Poland, from where they got to Paris on false passports. There they attempted to affect the negotiations of the peace conference. In this international forum Hlinka criticized relations in the Republic, argued against the Pittsburgh agreement, and to a certain degree complicated the situation of the Czechoslovak representatives at the conference. However, his actions ended in total failure. The French police, aware of the delicacy of the situation, told Hlinka to leave. Jehlicka chose to go directly to Pest, which had always been closer to his heart than Bratislava. Upon his return to the Republic, Hlinka was interned at Mirov, then in Brodek near Prerov, and finally in a Podolsk sanatorium, from which he was released in April 1920.

The failure of the Paris mission and the consequence of internment were causes of a basic change in A. Hlinka's attitude to the overall question of Slovakia's position within the state legal arrangement for Czechoslovakia. His concept of autonomy took on more and more anti-Czech features and it resounded with bitterness and growing mistrust. Basically its content had not changed. He continued to persist in the thesis of the need or interest for remaining within the republic; the unconvinced nature of this attitude, however, was revealed mainly because along with Hlinka himself and with his help the people who became the ideologists of the people's party were people about whose relationship to

Czechoslovakia there existed serious doubts, and finally even their Slovak citizenship was at the very least remarkable. In this area, the people who excited the most attention were those of the type of the above-mentioned Frantisek Jehlicka and, primarily, Vojtech Tuka.

Tuka, even though he came from Slovakia, operated mainly in the schools in Dolni Uhry (Pecs), was a police official for several years in Pest, and in 1916 was named professor of political science and legal philosophy at the legal faculty of the King Alzbeta Hungarian University in Bratislava. In his basic scientific writing "On Freedom" he took the position that the nationalities in Uhry had no right to their own national development and must be assimilated "in the unified Hungarian nation" as far as nationalities were concerned. Ideologically he was oriented toward the Hungarian Catholic political movement which took military positions aimed against Slovak political Catholicism after the break in 1905. After 1918 Tuka was not transferred into the services of Czechoslovak education. In 1920 he was offered the chairmanship of the Hungarian Socialist Peasants' Party which was established in Slovakia and represented the main force of the Hungarian irredentist movement. However, there was a sudden change in his orientation. At the end of 1920 he made contact with Hlinka, became chief editor of the daily newspaper of the Slovak People's Party, SLOVAK, and worked up the first official proposal by the party of autonomy for Slovakia in Czechoslovakia. At that time he himself did not know Slovak and his articles and other material had to be translated from Hungarian.

In the elections for the National Assembly, the Slovak People's Party put forth a list of candidates jointly with the Czechoslovak People's Party. Soon afterward, however, the two parties went their separate ways. The Slovak party went into opposition and, despite a number of offers of cooperation, remained in it until 1926 when A. Svehl succeeded in getting it to join in a coalition government. By 1928, however, the relations between the state and the People's Party had again got complicated. In his New Year's speech motivated by autonomy, V. Tuka put together a text stating that there was a so-called vacuum iuris, that is a status with law, in Slovakia. To support this he cited the fictitious addendum to the Martin Declaration in which there was supposed to be contained the exclusionary clause that the Slovak National Council was joining the Czechoslovak state for only 10 years, during which it would be necessary to delineate anew the relationship of Slovakia to the republic. Since that requirement had not been fulfilled, supposedly in Slovakia all governmental authority ceased to have any validity, along with any Czechoslovak agencies and the Czechoslovak legal system. This position naturally created a storm, especially since the separatist tendency oriented toward a future for Slovakia outside the Czechoslovak state was clearly apparent from it. In view of the fact that V. Tuka in the following months maintained continuous contacts with the Hungarian irredentists as well as direct contacts

with Budapest, he was stripped of his immunity as a delegate and sentenced to 15 years imprisonment for acts against the state. In 1937 he was released in response to a plea for clemency.

Despite the fact that Tuka had been removed from political life, his actions had taken root especially among the young people of the People's Party. After the model of the Fascist movements abroad, he had founded the party's fighting group under the name Rodobrana and especially then trained or influenced a number of young party members from the ranks of the Catholic-oriented intelligentsia who continued with the development of a separatist mood and ideas. Among the outstanding ones were, in particular, Alexandr Mach, Karol Sidor, Ferdinand Durcansky, and a number of others who then applied themselves to the creation of a Slovak clerical fascist state.

Jozef Tiso, another of the bosses of the People's Party, proceeded with much more tactical skill and, from the beginning, less explicitly in pursuing his intentions. Just as with Hlinka, he also was not able to make significant headway in the ranks of the Catholic hierarchy. From 1920 to 1923 he acted as the secretary to the Nitra bishopric and then became dean in Banovce nad Bebravou. From 1927 to 1929 he held the position of minister of health in the Czechoslovak government. After a new break of the People's Party with the coalition, he devoted himself fully to a political career in Hlinka's Slovak People's Party. He was its vice chairman after 1930 and then after Hlinka's death he achieved the leadership of that party. Tiso's drive for autonomy was from the beginning less aggressive. He even accepted the new law on the territorial arrangement of 1927 by which, among other things, Slovakia became an administrative unit within the new administrative order of the state. This of course did not satisfy the demands for autonomy and again created fresh soil for new tensions which were directed at separatism.

### Reaching the Break

One of the exceptional behavioral moments of conflict where Tiso, along with Hlinka, was involved in the preparations was a celebration organized in 1933 on the occasion of the 1,100th anniversary of the founding of the Pribinova Church in Nitra. The HSLS (Hlinka's Slovak People's Party) made use of that celebration for an openly antigovernment demonstration. The government's reaction to this provocation was so weak that it only strengthened the radical elements in the party. The political movement at that time was slipping more and more from A. Hlinka's hands. In 1938 he died, the celebrated leader of the party who at the same time presented himself as the defender of the interests of the entire nation.

In the second half of the 1930's, the HSLS made closer and closer contacts with the openly Fascist groups in Czechoslovakia and abroad. In 1938 it concluded an agreement on cooperation with the Sudeten German

Party and with the Hungarian and Polish separatist movements. After Munich, on 6 Oct 1938, in discussions with other political parties it proposed total control of political life in Slovakia under its leadership. It thus contributed to the destruction of parliamentary democracy in Czechoslovakia. Autonomous agencies were quickly created in the Second Republic and, with Nazi Germany rushing to assist them, on 14 Mar 1939 an "independent" Slovak state was declared which, however, was from the beginning de facto a satellite of the Third Reich.

Slovak political catholicism which at a certain phase in its development crystallized in the form of the Slovak (after 1925, Hlinka's Slovak) People's Party still awaits a thorough historical evaluation. In the meantime, it is possible to state that the leadership of that movement misused the justifiable demands for an independent Slovak nation, brought abuse into the relationships between the Slovaks and the Czechs living in Czechoslovakia, stirred up antidemocratic feelings, and led the Slovak nation into the realm of fascism. The struggle for new liberation, both political and spiritual, demanded enormous efforts and sacrifices and today threatens us with the danger that there may occur a new regeneration of certain residual material from that line of thinking.

## HUNGARY

### Communist-Freemason Link Alleged; No Evidence Found

90CH0299A Budapest REFORM in Hungarian  
22 Jun 90 pp 20-21

[Article: "Have Some Loyal Red Leaders Fled to Freemason Organization?"]

[Text] From an umbrella on the street a poison capsule was fired under the lieutenant colonel's skin.

"Did you know that Freemasonry is gaining new ground?" asked one of our readers privately. "Only these guys really stink, Mr. Editor, these Reds. One or two Masonic lodges were remodeled earlier, and became a secret society of top party-state officeholders."

Of course, and gatherings were held where oxen were roasted and game was hunted, I thought and politely thanked him by saying we would look into the issue. Naturally, there is no proof at all, as is customarily the case.

We asked around. Naturally we could find no trace whatsoever of a Freemason lodge infiltrated by Reds or Bolsheviks, nor could we find out who the Grand Master was: a well-known charismatic personality hard as steel, or an antler collector similar to Biszku or maybe Sergeant Gaspar. On the other hand, we were able to learn from the Szeged press that here, too, a Freemason lodge named Univerzum had been founded. It is said that the symbolic Grand Lodge announced a new party program

last summer in Budapest. We know little about this special field. About the Budapestites it is said that several so-called Janos-grade Masonic lodges were established within the Grand Lodge domain, while the one in Szeged, unique in our country, follows a Scottish ritual.

The Szeged newspaper DELVILAG recently published a gripping interview with Aron Monus, who returned home after allegedly being persecuted by a Masonic lodge in Monaco called P-2. According to the interview, a secret Freemasonry lodge also operated in our country in the early 1980s and in fact infiltrated the former state security agency. As recently as 1988, Monus informed the police of the secret domestic organization's activities. According to the DELVILAG article, Monus got as far as a lieutenant colonel named Gyorgy Juhasz, to whom he unbosomed himself. (The lieutenant colonel was reputedly a state security officer.) Not long afterwards, Juhasz collapsed on the street in a rather peculiar way, and died. The only thing the inquest established was that he had had a heart attack. But Aron Monus, who did so much to expose the machinations of the Freemasons, claims that Juhasz was a murder victim. He is writing a book about the Freemasons' poisons and refined methods of killing: about how, for example, they inoculate their enemies with cancer, but can induce other natural diseases, too, such as a heart attack. The method of killing is called the "Bulgarian umbrella." In a busy, crowded thoroughfare, the tip of an umbrella is stuck into the victim, and a small capsule containing a poison that causes heart attacks is shot beneath the skin. Ten years ago there were several such cases in West Europe, and the trick was uncovered when an emigre Bulgarian journalist suffered a "heart attack" in Paris. The fired capsule was not absorbed and was successfully extracted from the skin, and police medical experts were able to analyze the capsule's content. What imagination, what fabrication, someone might think. Unfortunately, what is known about security affairs makes it credible. Even more curious is the Bulgarian connection. If we have already heard so much about the KGB and other security agencies, it is just possible that the first-rate Bulgarian disciples have also learned a thing or two. For clandestine operations, however, the most useful thing is to infiltrate the even more clandestine Freemasonry organizations either in the East or West. So we advise the upright and refashioned Hungarian Masonic lodges to observe each other, new members, and foreign connections closely, because they could easily fall under the influence of communist or undercover agencies.

### Kossuth, Karinty, and Ady Were, Too!

According to researchers, Freemasonry came to Hungary via Poland. The first Masonic lodge was founded by Polish emigrants in Eperjes, and in Lemberg—today: Lvov—Ignac Martinovics became a "brother." Later the Viennese Freemasons organized the movement in Hungary. Kazinczy wrote in 1790: "To me Freemasonry is an association which out of the most kindhearted people makes a small circle in which a person forgets the great disunity that exists in the outer world." At this time, a

leading member of the Masonic lodge was Gergely Berjeviczy. In 1795, after the trial of the Hungarian Jacobins—the to-this-day unexplained “arrest” of Martinovics and company—Freemasonry was forbidden on the monarchy’s territory. Despite this and despite even more stringent laws against conspiracy, the organization survived. A few names from the great generation of the reform era are Gyula Andrassy, Istvan Turr, Ferenc Pulszky, and Gyorgy Klapka. Lajos Kossuth had become a Freemason in exile. A quotation from him: “The brotherly love and goodwill shown to me by Freemasons gave me the opportunity to become a member of the association which is made even nobler by the noblest principles of mankind and by the celebrated names in our history.

After the turn of the century, for example, we find the following names among Hungarian Freemasons: Endre

Ady, Elek Benedek, Jeno Heltai, Dezso Kosztolanyi, Gyula Benczur, Strobi Zsigmond Kisfaludy, and Jeno Polya. Examples of politicians are Jozsef Pogany, Zsigmond Kunfi, Geza Supka, and Vilmos Vazsonyi.

Some surprising members of the Freemasons are Ferenc Chorin, Akos Zwack, Leo Goldberger, and Emil Kornfeld.

Among the Freemasons of recent times we find, for example, Albert Szentgyorgi, Frigyes Karinthy, Sandor Marai, Karoly Kernstok, Karoly Zipernowszky, Imre Dreher, and Gusztav Gratz: writers, scientists, and businessmen whose political views are quite different but whose humanitarian principles are similar.



## BULGARIA

**Construction Troops Organ on Defense Industry Conversion****Effects on Metalkhim**

90BA0290A Sofia TRUDOVO DELO in Bulgarian  
7 Aug 90 pp 1-2

[Interview with Eng. Bozhidar Babunov, Metalkhim deputy director for commercial matters, and Eng. Khristo Nachev, Metalkhim deputy director for capital construction, by Nikolay Krustev, TRUDOVO DELO correspondent; date and place not given: "Conversion—From Outside the Secrets of Our Military Industry; Bread-Making Machinery Instead of Antitank Mines; Construction Troops Built Almost the Entire Physical Plant of Metalkhim State Economic Trust"]

[Text] Entry into the Metalkhim building until recently was not so much impossible as pointless. Information about our military industry was profoundly hush-hush behind high stone walls and militia sentries. Simultaneously with the changes in the world, the psychological barrier fell when, on President Gorbachev's invitation, his American colleague Bush entered one of the Soviet Union's most secret bases—Vodkinsk. We now know, for example, that, as a result of the disarmament, the production in our country of a number of types of 100-mm shells for antiaircraft guns, of BA-2, Tm-62M, and TM-80P antiaircraft mines, of OG-9 aluminum-headed antipersonnel fragmentation projectiles, and of G-15 antipersonnel mines has stopped; that the Ministry of National Defense has reduced its orders to Metalkhim by 250 million leva, while the Warsaw Pact states have reduced theirs by half. Arab states and other countries have refused orders. Conversion is now not only an "in" topic, but also, above all, a necessary one. We ourselves, the personnel of the Construction Troops, an organization that built almost the entire physical plant of the Metalkhim firm and that is continuing now to work on its facilities, have perhaps a little more reason to speak of conversion. Eng. Bozhidar Babunov, deputy director for commercial matters, and Eng. Khristo Nachev, deputy director for capital construction, accepted the invitation for a conversation.

[Krustev] How should we size up the conversion in percentages?

[Babunov] Whereas previously civilian production represented 26 percent of the volume, it is now over 45 percent, with a trend toward becoming half of production by the end of the year.

[Krustev] Is this change due to the expansion of the present range of products or to the introduction of new ones?

[Babunov] To both. In bearing production, for example, we have introduced bearings over and beyond the specialization we have hitherto had in CEMA. In the

coming year we shall try to reach 19 million bearings as against the 35 million now produced. From among our new lines is the production of machinery for the food, wine, and tobacco industries. At the Lunarit Combine in Ruse, about 35 machines have already been brought on stream. In the detachment of the Vazov Machine-Building Plants at Razlog, we have chosen bread-making machinery as our specialization. We want to wind up a flow line with a capacity of up to 5,000 loaves per shift, suitable for small villages. It will not be an especially profitable production process, but the country has need of it.

On the basis of traditional relations with the Soviet Union, we are directing our efforts toward household products. This year we should produce 100,000 air-suction units for Typhoon vacuum cleaners, in return for which we shall receive approximately 13,000 to 15,000 cleaners, and soon, perhaps, we shall begin complete assembly as well. On the same terms, we have since last year started up production of the mechanical part for the TOM-209S tape recorder. As we build up experience, why shouldn't we seek out Western firms as well so as to continue to develop along these lines? We are already making technical preparation to produce compressor units for household refrigerators; the demand abroad is unbelievable, and even the Anton Ivanov Plant in Sofia is now completely dependent on imports. We have also launched the start-up of a small absorption refrigerator that will operate on propane-butane and electric current. We are continuing with the familiar propane-butane products and automotive spare parts. Recently, with the Polsim Limited firm, we set up a joint enterprise for pocket knives and safety razors.

[Krustev] In the 43 years since it was set up, Metalkhim State Economic Trust has given us, in addition to armored cars, shells, and bullets, the Bulgarreno medical-instrument plants at Sofia and Topolovgrad, plants for difficulty fusible plastics and elements, milling machines.... What is there that we shouldn't overlook?

[Babunov] There are not just one or two examples, but when, before this, were there Bulgarian optics? Look at the buildup: Originally there was one Technical Optics Plants in Sofia producing flasks for chemistry centers. Then, not without the services of the Construction Troops, a huge optics and electronics combine was set up in Panagyurishte—measuring rods, electron-beam products, observation instruments, microscopes. Next came the Optical Technologies firm and a laser plant in Plovdiv.

[Krustev] Until recently you reported output worth over half a billion dollars annually, which was then absorbed in our economy. What was left over for the trust?

[Babunov] On average about 17 percent, which we used for investments, spare parts, and materials. Basically, it was received and redistributed by us. It's not entirely clear to me, but I believe that a large part of it went into electronics, possibly into Radomir as well....

[Krustev] Four or five years ago you launched upon MAN [Maschinenfabrik Augsburg-Nuernberg] engines, aircraft construction—IL-74 tail, undercarriage, controls—and the idea of a Reno-11 automobile. If these projects had been implemented, would Metalkhim now be in such difficult circumstances?

[Babunov] I wouldn't say that we would have got by without difficulties, but we would have had things considerably easier. We had begun to build an engine plant at Tolbukhin under license from MAN precisely because we wanted to expand civilian production, at the same time placing an additional workload on capacities. We had a program that envisaged including all Metalkhim plants in the start-up. We sought an integrated product whereby the effect would be multiplied. It's a good thing that at least we have always had more ideas than failed intentions. In our case, you see, production can drop by half, but we are never left without ideas for getting out of the situation.

[Krustev] We have been talking about prospects for production, but how do they look for construction?

[Nachev] Construction hasn't declined. Last year our plan was for 15 million, and for next year it will be 15 million again. If we don't build, we fall behind. But in our country the whole investment process is sluggish. We wanted to finish up the Aviation Equipment Facility next year, but it's impossible. We are being enlisted in the reconstruction of existing capacities for new products and are holding back on new construction, as happened with the industrial explosives plant in Mukhovo. We needed five million for start-up, but resources amounted to 2.1 million.

[Krustev] In a conversion a few days ago, you emphasized that construction was simply proceeding slowly. Now you raise the question once more....

[Nachev] The Construction Troops provide perhaps 20 percent of our needs. The remaining percentages are spread out over time. That, actually, is what the delay results from. It doesn't rest with them. Our construction needs are simply greater than the resources of the detachments that are building our production base. Almost the entire physical plant of Metalkhim has been built by the Construction Troops. We have no intention of dispensing with them in the future, either.

### **Gama Personnel Worried**

90BA0290B Sofia TRUDOVO DELO in Bulgarian  
7 Aug 90 p 2

[Interview with Eng. Nikolay Tsankov, Gama general director for technical development, by Senior Lt. Petur Khadzhiev; date and place not given: "Above All Realism—Conversion Gives Rise to Number of Problems To Be Solved at Gabrovo Firm Gama"]

[Text] We continue the topic of conversion and our indirect participation in it. This time I shall acquaint you

with the civilian-production development program of the Gabrovo firm Gama. But before imparting my conversation with Eng. Nikolay Tsankov, the firm's deputy general director for technical development, let me note the following fact: For 20 years the Construction Troops have constantly cooperated with this firm's detachments.

Gabrovo lives routinely with the problems that are now worrying every one of us—what kind of government there will be, what kind of laws the Grand National Assembly will adopt, whether the deputies will justify the confidence voted in them. People are wondering whether they will have bread tomorrow, whether their jobs are assured. Such questions are asked at the Gama firm, too, because conversion, along with the favorable things about it, gives rise to a number of problems.

[Khadzhiev] Eng. Tsankov, what does the conversion program provide for?

[Tsankov] Its purpose is to implement rapid reorientation of production, taking into account market demand and the possibility of a fuller load factor of the freed-up assets.

[Khadzhiev] What is the percentage increase of civilian production?

[Tsankov] A complete production schedule of civilian products has been established that, from 39.78 percent of the total output produced in 1988, as early as 1990 exceeds 80 percent. The basic priority areas of civilian products are as follows: textile equipment, specialized technological equipment, automation elements, materials-handling equipment, assemblies and instruments for motor-vehicle and forklift construction, medical apparatuses and instruments, fire-fighting equipment, farm implements. Out of a total of 70 targets included in the 1990 plan, 61 (87 percent) are being fulfilled with introduction into production. Additional profit in the amount of nearly 2 million leva is expected this year from new products.

[Khadzhiev] Apart from the precipitate political changes in recent months, radical changes are taking place in the country's economic situation. Is this affecting the conversion programs?

[Tsankov] The results of last year (1989) and those of this year give reason to believe that the numbers of most quality indicators will be reached in 1992, but the volume indicators—"commodity output" and "foreign-exchange receipts"—will be reached no earlier than 1993. Foreign-exchange receipts from civilian output, according to the contracts signed in 1990, are about 5 million leva less than last year, and that chiefly for the USSR. Here I cannot help noting that conversion exerts the strongest adverse effect on the foreign-exchange program. The sharp drop in exports of special output cannot be compensated for by exports of newly introduced civilian products. And this significantly affects the firm's income.

[Khadzhiev] What way do you see out of the situation that has thus been created?

[Tsankov] In connection with the improvement of the firm's foreign exchange balance, it is anticipated that an increasingly larger percentage of the energization of foreign trade activity will be accounted for by cooperative production effort with other countries. As a result of agreements with leading firms of Western and Eastern Europe, in the sales process there will be a number of new products through cooperative production effort, through production on a "KNOW-HOW" basis, and through joint enterprises. Our partners will be the Dubix firm—France; Filka—Greece; Rikki Metal Systems—Scotland; TsNIILKA—Moscow; Tekstilmash NPO [Scientific Industrial Trust]—Moscow; and P/O [Industrial Trust] Tekstilmash—Cheboksary; Extima—GDR; TsNIIKhBI—Moscow; Greslin—FRG; and TsNIIGP—Moscow. The production list is copious. It includes production of industrial laundry equipment; mangles for the knitwear industry; farm implements such as cultivators, potato planters, and lifters; the electronization of looms; and textile machinery.

[Khadzhiev] Let us dwell on a very important question. How is conversion affecting personnel employed in your establishment?

[Tsankov] In the period January 1988 to March 1990, 423 persons switched jobs and the character of the work they did. Coinciding with the conversion period was the introduction of the new base pay system, which set the

requirement of a reduction in the number of administrative and managerial personnel and the number of work positions. Structural changes from a combine organization to a firm organization were completed. In the more than two years that have passed, 2,544 persons have been dismissed in the units of the firm affected by the conversion, 1,653 of them with notice, while 981 left at their own request. Many of these persons found work in other enterprises.

[Khadzhiev] In conclusion, what is your opinion of the Construction Troops?

[Tsankov] Let me answer in a word. If it were not for the troops, hardly a performing person would be found to make up the various detachments of the firm.

\* \* \*

Until recently, entry into the detachments of the Gama firm was quite difficult. Now in many positions the uniformed militia men have been replaced by civilian doormen. Conversion has had its say here, too. Many see in it a way out of the economic crisis that has been created, but it can hardly bring salvation because the transition to civilian production involves quite a few problems about which much has already been frankly said. The managers of the Gama firm have a realistic view of the things associated with conversion. There will be results from it, but for this, time likewise is required. Hence we are going to be a little more patient.

## INTERNATIONAL AFFAIRS

### Potential East European Telecom Market Analyzed

#### Financing, CEMA Discussed

90BA0342A Paris LE MONDE in French 25 Sep 90  
pp 25-26

[Article by Agnes Guerard and Albert Glowinski: "Challenge on a World Scale: Investments Totaling About 20 Billion ECU's Annually"]

[Text] The development of their telecommunications networks is a necessity for the success of the economic revolution on which the East European countries have embarked. But, as is known, the current telephone facilities of those countries, without being totally negligible, are very much behind the times as compared with those of the industrialized countries.

The density of their networks is down among the very low worldwide averages, with less than 12 LP's (main telephone lines [lignes principales de telephone]) per 100 inhabitants. [Note: International Telecommunications Union (ITU) defines the French term "ligne principale de telephone" as: "A line connecting a public exchange to a subscriber's main station and to any extension stations there may be," followed by "Remark: No corresponding term exists in the United States."]. Densities of this magnitude are comparable to those existing in Western Europe some 20 years ago: In 1970, this average was less than eight LP's per 100 inhabitants in France, around 12 in Italy and Germany, and 15 in the United Kingdom. Today, the average density of facilities for the European Community member countries is around 40 LP's per 100 inhabitants, and continues to grow at a steady rate.

However, the most worrisome aspect is that this quantitative lag is accompanied by a technological lag, and that communications facilities allocated to business uses are practically nonexistent: There are no data communications networks, and very few customized subscriber channels, without which business communications networks and value-added networks cannot be built. Only telex, which to some extent offsets the absence of data networks, is relatively widespread, whereas its density in our countries is on a downward trend that could well become a free fall in coming years.

True, the telecommunications sector has begun to move, principally in Hungary and Poland, and the principal Western industrial groups are installing production units—some in East Germany, some in Hungary, some in Yugoslavia. But these are all operations of limited scope, clearly insufficient to close the current gap over the intermediate term. Imagination will unquestionably have to be put to the test in all domains: Technology, financing, production, and organization.

For each of the countries concerned, the situation demands a very-large-scale effort, larger than the one deployed in France between 1970 and 1985, in a much more favorable economic context. And one of the first objectives will have to be the transformation of the equipment production system, technologically as well as from the standpoint of production capacities.

As of now, the facilities installed in Eastern Europe are, for the most part, being manufactured by local industries, frequently under Western license. This production, which should not under any circumstances be done away with, was put in place under the aegis of CEMA.

The trade flow among the CMEA member countries is still not fully known, given the insufficiency of statistical sources and indeed, at times, their deliberate doctoring. But it is nonetheless possible to reconstruct, in terms of significant orders of magnitude, the principal characteristics of the telecommunications equipment market and trade flow in recent years.

#### CEMA Arsenals

Outside of the USSR, which covers 75 percent of its domestic market, CEMA-Europe production capacities are situated mainly in East Germany, Hungary, Poland, and, to a lesser extent, Czechoslovakia. Analysis of available data for 1987 and 1988, indicates that these four countries have an output on the order of 1 billion ECU's, for a domestic market of 500 million ECU's: These are CEMA's telecommunications equipment "arsenals."

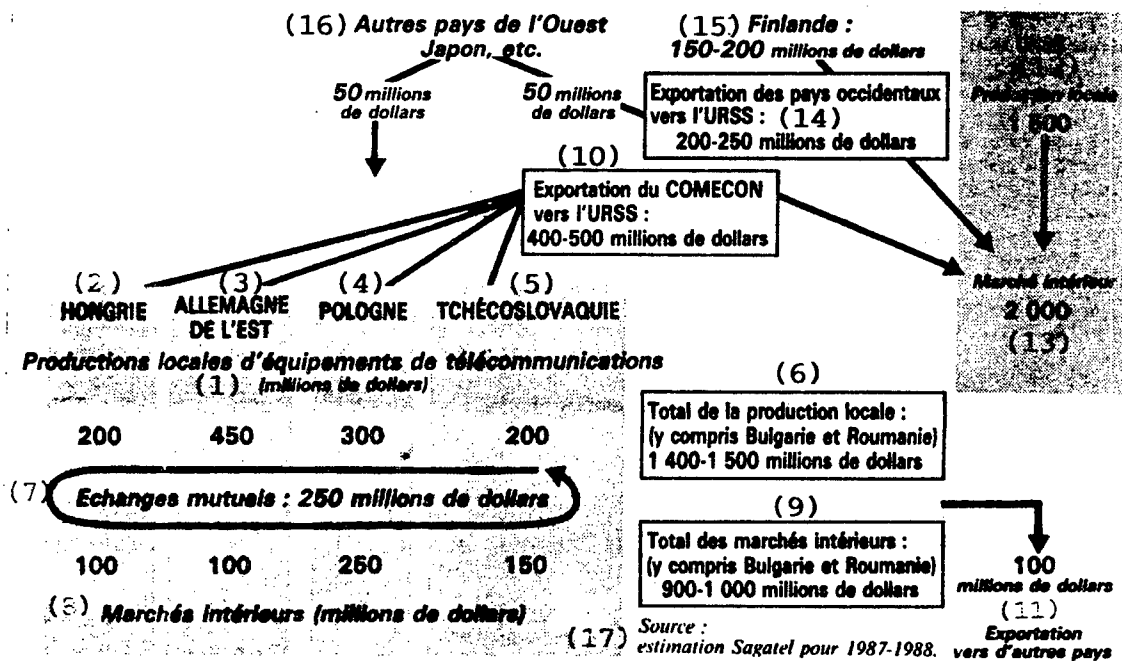
The USSR imported around 700 million ECU's of equipment, 60 percent of which came from these countries. The rest came from Finland and Yugoslavia, and a very small part from the EEC countries and Japan. In 1987 and 1988, Hungary exported 10 times more telecommunications materiel than it imported, and two thirds of these exports went to the USSR. East Germany also had a large telecommunications equipment trade surplus, with the USSR, as its principal customer, absorbing 50 percent of its exports.

Three fourths of Poland's exports went to the USSR, but its own domestic market absorbed most of its domestic production. Czechoslovakia's foreign trade in telecommunications equipment also showed a surplus but was more balanced. In particular, Czech imports absorbed 40 percent of the 200 million ECU's of telecommunications equipment traded within CEMA-Europe, outside of the USSR.

Analysis of the trade flow tends to suggest that Czechoslovakia acted as a "hub" within CEMA-Europe's telecommunications sector. The absence of transparency in the flow between the two Germanys appears to mask a comparable role for East Germany between the FRG and CEMA.

It seems, however, that the role of link between East and West European markets was played mainly by Austria,

## East European Telecommunications Equipment Production, Trade Flow 1987-88 (in millions of dollars)



## Key:

1. Telecommunications equipment production—local totals
2. Hungary
3. East Germany
4. Poland
5. Czechoslovakia
6. Total local production, including Bulgaria and Romania: 1,400-1,500
7. Mutual trade flow: 250
8. Domestic markets
9. Total of domestic markets, including Bulgaria and Romania: 900-1,000
10. CEMA exports to USSR: 400-500
11. CEMA exports to countries other than USSR: 100
12. USSR local production: 1,500
13. USSR domestic market: 2,000
14. Western countries' exports to USSR: Total 200-250
15. Finland to USSR: 150-200
16. Other Western countries, Japan, etc. to USSR: 50
17. Source: Sagatel estimates for 1987-88

Yugoslavia, and above all Finland. CEMA represented up to 50 percent of telecommunications equipment exports by these three countries, whereas more than 50 percent of their imports came from Western Europe, and less than 10 percent from CEMA countries. The designation of "hub" is particularly applicable to Yugoslavia, which, outside of the USSR, has many clients throughout the world, in China and especially the Middle East.

Finland, whose imports come for the most part from Sweden, FRG, and Japan, trades mostly with the USSR.

Its exports consist mainly of communications equipment, subassemblies, and components. They have more than quadrupled in the space of a few years, attaining, today, between \$150 and \$200 million; that is, half of Finnish exports, all destinations included, putting Finland in second place among suppliers of the USSR, very close behind East Germany.

## Catch-Up Strategies

French sales of telecommunications equipment to East European countries doubled in 1988, representing in

that year two percent of total French exports of this type of equipment. Although political systems can be changed in a matter of days, by way of elections or revolution, it takes much longer by far to modernize an industrial apparatus, to increase its productive capabilities, and to significantly modify international trade flows. The upgrading of networks in Central Europe and the USSR will be a long drawn-out process. Because of financing problems, it cannot be based solely on massive imports of equipment from the Western countries but must necessarily include expansion of existing local production facilities and trade flows.

Moreover, this situation calls for different types of measures. Some, over the relatively short term, will depend *sine qua non* on an economic upgrading; the others will have to be based on strategies for closing the gaps over periods of 10, 15, and 20 years.

In Poland, for example, where some 100,000 villages have practically no equipment whatever, the network capacity would have to be quintupled to attain the West European average. But, for the immediate present, the Poles have undertaken to create a modern network superimposed on the existing network, and limited to some 100,000 preferential business and professional subscribers, able to pay in hard currencies.

In Hungary, present network capacity would also have to be quintupled, and a gap-closing plan has been drawn up by the Hungarian authorities.

In particular, to speed up the equipping of the least advantaged regions, an original system of financing through subscription has been instituted: Comparable to the system of reimbursable advance deposits, this system gives its subscribers priority on the waiting lists.

These two countries are presently those that are exploring most widely the range of feasibilities in the telecommunications sector. And the innovations they are testing, from the standpoint of installation as well as operation of their telecommunications networks could become models for their neighboring countries, particularly insofar as the priority they accord to business communications subscribers.

To appreciate the true magnitude of the potential, however, it must be viewed from the standpoint of the East European market as a whole. If, for example, in combining the urgent business telecommunications market with the longer term development of general infrastructures, one retains the present European Community coefficient of equipment as the desirable objective to be attained as of the period 2005-10, this will require expansion of the network by more than 120 million telephone lines: 80 million for the USSR, 20 million for Poland and Romania, which are the most densely populated countries; and 20 million for the five other countries, including East Germany and Yugoslavia.

This catch-up scenario on the whole would require multiplying the capacity of the networks, all countries

included, by a factor in excess of three, and above all, a multiplication of present growth rates by a factor of five or six. A change of this order of magnitude represents a major challenge from both the economic and industrial points of view.

In evaluating the stakes, one might be tempted to think that the point of departure would not be zero level, since basic infrastructures already exist and since, moreover, in planning a realignment of priorities between military expenditures and outlays for economic development, some defense networks should be able to be converted to public telecommunications use.

The public network infrastructures, however, are very old, the military networks themselves need modernizing, and the data networks must be created from scratch, to say nothing of radiotelephone, satellite television, and cable television networks.

Under these conditions, the catch-up scenario would consist rather of connecting between eight and 12 million telephone lines a year over a period of 15 to 20 years!

#### Financing Problem

An upgrading to this level would involve investments totaling some 200 to 300 billion ECU's, hence annual investments totaling 15 to 20 billion ECU's, based on a cost of 1,500 to 2,000 ECU's per telephone line, production and installation included.

A convincing view of the difficulty of the undertaking can be gained from the case of the USSR, which over the past decade had set for itself a comparably ambitious objective: More than 12 million new lines planned for the period of the 12th Plan (1985-90), and a target of 100 million telephone stations installed by the year 2000. Today, with a growth of less than 4 million stations for the entire 1985-90 period, realizations are already far short of objectives.

Industrial production is also lagging far this side of goals, and the figure of \$8 billion frequently cited as the value of the annual public telephone equipment market in the USSR by the end of the 1980 has proven purely theoretical. The real figure can be estimated at around \$2 billion, 75 percent of which is covered by local production.

In view of these orders of magnitude, it is clear that financing is *a priori* the most critical of the problems, more so than the technology itself. But it is not the sole problem. The installation of industrial capacities, and above all, the management of projects of this magnitude, are tasks that will probably require, alongside the professionals of the sector, the intervention of organizations specializing in financing, and of world-class civil engineering firms.

Western industrialists have, of course, not awaited the fall of the wall to prospect for and do business in the East

within the constraints of COCOM [Coordinating Committee on Export Controls (NATO)] authorizations. The most important of these cases include Alcatel, which is involved in several industrial transfer operations in the USSR, and which has been present in Poland's public switching sector for the past several years; Siemens, which is established in East Germany and Yugoslavia; Ericsson in Hungary and Yugoslavia; GEC & Plessey Telecom in Moscow to install a network of public telephone booths for international communications; and Amper in the USSR to manufacture station terminal equipment. Over the past year, the installing of activities by these big groups has accelerated: At the present stage of projects, Siemens and Alcatel are installing production capacities of around 4 million telephone lines in the USSR as well as in Poland and Czechoslovakia.

As for West European operating entities, they are, strictly speaking, not present in Eastern Europe as operators, as they are in several African, Asiatic, and South American countries, generally speaking by way of financial participation in the capital of local operating entities. In Eastern Europe, all the operating entities are state owned and operated monopolies, whose plans do not really call for participation by foreign capital, except in the case of Hungary. Maygar Posta actually announced, around mid-1989, its intention to privatize its state-owned telecommunications enterprise and to cede a minority share of its capital to foreign investors.

The outlook for a progressive closing of the gap, as outlined herein, obviously involves a reconsideration of the current forms of cooperation, none of which can be sufficiently broadened to provide within itself a satisfactory response. Indeed, the gap-closing scenario in question would mean bringing to focus on the East European countries, for a period of 15 or 20 years, the equipment production capacities and the infrastructural development know-how corresponding to a growth rate of 8 or 12 million telephone lines a year; that is, around 20 to 30 percent of the telecommunications industry's production capacity worldwide.

### Global Implications

90BA0342B Paris LE MONDE in French 25 Sep 90  
p 26

[Article by Agnes Guerard and Albert Glowinski: "A Recombined Europe"]

[Text] The development of a gap-closing scenario could have far-reaching implications for telecommunications on a world scale. First of all, it could contribute to a recombining of the European telecommunications sector.

Already, in the course of the past several years, the dynamic of Community activity has contributed to the emergence of far more solidly based multinational-class industrial groups than in the past, and has at the same time led to a structural change in the public operating entities. These two developments have led, in due time,

to profound changes in the relationships between manufacturers and public-sector operators.

What the challenges in Eastern Europe could bring about in this context is a greater vertical integration between industrial activities and network operations, in the form of concrete and probably financial team-ups, enabling them to better compete with big U.S. groups for the new markets recently opened up by the lifting of COCOM constraints.

The second implication could be a pause in the forward rush of technology. Offering as they do substantial potentials in well-identified markets, it is quite possible that the challenge of the East European networks will appear more tempting in the eyes of the Western equipment manufacturers during the 1990's than the gamble on the so-called broadband networks in the industrialized countries.

The techniques have been fully assimilated and production tooling optimized. But above all, what one sees is not a hypothetical demand but rather a demand for telephone and data transmission services and equipment; in other words, well-known markets, whose solvency through the intermediate period is assured. Without going so far as to say that the development of networks in the Western countries would be "frozen," moving into the new generation of broadband networks, which is one of the big questions reaching into the next 10 or 15 years, is likely to no longer have the same urgency.

Besides, the networks of the 21st century would have every opportunity to first appear in East Europe. The fact is that there would be more creating of new infrastructures than modernizing of existing ones, so that the introduction of modern innovations would definitely not be slowed by the technological and economic weight of existing ones.

In particular, optical fiber could be deployed massively for connecting subscribers to the network, inasmuch as, according to the experts, this means is now competitive with copper, even for telephony, where new networks are to be created, although its use to replace presently installed metallic cables must be justified on other grounds. Similarly, mobile or wireless telephony techniques could find their rightful place within the array of communications technologies, without being penalized by existing cable infrastructures.

The catch-up scenario for the East European networks could thus provide the optimal framework for the application of modern techniques on a grand scale, and Eastern Europe could well be the first to enter the telecommunications era of the 21st century. This would be a transposition of the case of France, whose telecommunications network has become, in 15 years, one of the world's most modern, simply because, owing to the lag it had accrued, more than 80 percent of it had to be created after 1970.

## CZECHOSLOVAKIA

### Progress Hampered by Excessive Economic Theorizing

90CH0449E Prague HOSPODARSKE NOVINY  
in Czech 29 Aug 90 p 5

[Article by Dr. Eng. Jaroslav Vostatek, Office of the President of the CSFR Government: "The Danger of Theorizing"]

[Text] The transition to a market economy furnishes plenty of opportunity to develop theories, and there are many pitfalls, particularly for those who took on themselves the risk of managing the reform of the Czech and the Slovak economies. It is an enormous risk, and the probability of success is small. Not because, at least in our situation, there is no chance of following the rocky path of reform without suffering injury. The first prerequisite for this is to have an "approved" program for the transition to a market economy. Mastering it is relatively difficult because, among other reasons, there are no tailor-made text books. Experience with semireforms and perestroikas, of course, have been negative, and on the whole worthless in our case, since we are aiming at a true transition to a market economy. Some conclusive data have only become available recently, and they are from Poland.

A high-quality program for the transition to a market economy can only be worked out after alternative scenarios for this transition have been debated. In this sense, the economic program must not be confused with a general philosophy on economic reform, in which its authors claim to support a transition to a market economy and list, in general terms, a larger or smaller number of problems that must be solved, usually without supplying specific data on the expected rate of apportioning individual governmental interventions in the economy, and without stating the expected impacts. An economic program comprehended in this way cannot be replaced with a schedule of submitting material to the government or to parliament.

The second prerequisite for the reform's success is a team of people, who will cooperate well in implementing it. If the ideas of the individual ministers and governments are conceptually different, the reform is doomed to failure from the beginning. Moreover, it does not concern only government ministers, but also additional political and other forces. Personal ambition and tactical maneuvering could turn out to be significant factors.

A serious danger is extremism. In the economic sphere it can issue from the political positions of the subject, or be rooted in unilateral emphasis on one aspect of the transition to a market economy. In my opinion, for instance, this includes ideas about the complete liberalization of prices, especially if this is to be done by 1 January 1991. Another example would be some attempts to ignore the fact that income policies are an independent element of economic and social policy.

I consider theorizing to be rather dangerous. I particularly have in mind the production of simplistic diagrams for the course of the reform, the so-called arrangement of steps. Examples of this are two opposing conceptions: According to one of them, market equilibrium should be created through the liberalization of prices, and, according to the other, prices should only be liberalized after equilibrium and other prerequisites have been attained. The responsible governmental agent cannot choose either of these two concepts. At least not on a general level, since the situation in the individual branches and sectors differs considerably. The course of the reform cannot be uniform, and this also applies to apportioning the changes and interconnections of material problems, finances, currency, prices, incomes, etc.

Theorizing also includes numerous speculations about whether the reform should be quick and radical, or whether it should be well-thought-out and prudent. One could, of course, write quite a number of good papers on this subject, but unless they are substantiated and accompanied by absolutely specific data, analyses, and prognoses, they are unlikely to be of any help in practice. I consider the article "Riskantna operacia" [Risky Operation] (HN, No. 28/1990) by Eng. Eduard Mikelka, which contains a number of accurate critical views of our economic policy, to be like this. However, in the key questions in his article, the author argues only on the general level of deductions and analyses. He targets the 1990 state budget, which in his opinion is the most serious and wide-ranging mistake. I will not make a detailed analysis of individual arguments here, I will only refer to the polemics from the pen of Eng. Ivan Kocarnik in the article "Je restrikce nutnosti?" [Is Restriction a Necessity?] (HN, No. 31/1990). I will limit myself to a few sentences.

First of all, appealing to market economies is no argument, since they are not "shortage economies"—which is obviously essential when assessing the state budget balance. The author need not agree with the idea of a surplus budget, but he should document the negative effect of curbing expenditures for economic development, which he mentions. It is impossible to find a solution on the general level—after all, our initial situation is completely "unique"—and, when we were setting up the state budget, we were at the start of the reform. The authors of the budget may have been too harsh in some cases; however, I am afraid that on average they were rather moderate, since they could not have had enough information about the possible reductions of budgetary expenditures and enterprises' expenses. The budget simply had to be set up "blindly" to a large extent.

There is no reason for Eng. Eduard Mikelka's demand that the subsidies to enterprises remain at the 1989 level. And there is certainly no easy way to combine subsidies to enterprises with support of economic growth. The situation with expenses for science and research is similar. The fact that these expenditures in countries that are at least twice as developed as ours are appreciably higher



than in our country, is not sufficient reason to keep analogous expenditures in 1990 here at the same level, or indeed to increase them. The fact is that it all depends on the extent to which the activities of the relevant organizations are expedient and adaptable.

We are living in revolutionary and difficult times. This is reflected even in the interpretation and evaluation of individual steps in the economic sphere. In our country there is also an imbalance in the direction of interpretations and debates. Rather a lot was said about the anti-inflationary effect of a surplus state budget. A number of statements even led one to believe that there would be no inflation here. Then came the increase in food prices, which was considered to be neutral from the budgetary point of view. Now it is no longer possible simply to talk about anti-inflationary budgetary policies. Apart from that, the maneuvering with food was not neutral from the citizen's point of view; it led to a devaluation of cash savings in an amount that exceeded the sum of the abolished sales tax, resp., the state organization payment that had been introduced. Members of the government did not indicate whether this impact on the citizens was a part of the reform steps, or whether (and how) it would be recompensed.

In the interest of greater proportionality in debates, one must pay more attention to price, monetary, and income policies. Not only on the aggregate level, but also in individual branches. If this is not to be pure theorizing, it demands intensive work with numbers, scenarios, etc.

### **Lack of Quality Products Impedes Economic Progress**

90CH0449B Prague HOSPODARSKE NOVINY  
(supplement) in Czech 29 Aug 90 p 7

[Article by Dr. Eng. Jaromir Veber, doctor of science candidate, College of Economics in Prague: "Do We Know Where the Path to Quality Will Lead? We Know, but We Take No Notice"]

[Text] While positive economic results are attained through the high quality of products in modern economies, in our country we frequently grapple with basic flaws in them. Yet one of the first goals we have set ourselves is to expand our export to developed markets, where there is not much room for lack of quality, and pressure for higher quality is constantly increasing. In fact, in the EEC countries, it has begun to be coordinated as a result of the increasing activity of the agencies for standards and norms in these countries, and has resulted in the adoption of the international quality standard ISO 9000-4, or, EN 29000-4.

Our producers are beginning to come up against this fact when they export products. But the data we have gathered from the investigation of quality assurance, which we carried out in more than 150 production organizations during the past year, demonstrate the unsatisfactory control of this activity in our enterprises, which

does not conform with the requirements demanded by the above-mentioned foreign recommendations on standards.

The conclusion of the investigation showed that almost 90 percent of those questioned consider the present quality control system in their organization to be unsatisfactory. The causes are listed as being unsatisfactory production technology, technical inspection, equipment in testing stations and laboratories, lack of interest and support on the part of the management of production organizations, insufficient material security and incentive for the workers.

Three-fourths of the respondents stated that the quality of the products from their enterprises was unsatisfactory. This is caused by the obsolescence of production technology, the unsatisfactory level of preproduction product preparation, insufficient research into needs and the development of product quality in connection with it.

There was an even more emphatic negative response to the question about the assessment of the degree of deficiency in manufactured products, to which 83 percent of those questioned answered negatively. In this case, the causes are considered to be deficiencies in the quality of the input raw materials, low work discipline, insufficient production technology and technical inspection, and frequent changes in the production program.

The question dealing with consistent complaints about low-quality deliveries was answered in the affirmative by only 36 percent of those asked, 47 percent only complained sometimes, and 16 percent admitted that they had never complained about defective deliveries. The reasons for never complaining or only complaining sometimes are: apprehension about subsequent deliveries, late determination of defects, insufficient proof of defects.

From the information gathered from leading companies, it is apparent that a positive change in quality is clearly linked with the interest and support of the management of the individual production organizations. However, in our country, the regulations for managing the economy to date have not really stimulated the enterprises' management toward improving quality, since it is easy to achieve positive economic results by quantitative expansion of production, etc.

The investigation showed that the influence of quality on the economy of enterprises was negligible in 18 percent of the organizations, partial in 44 percent, and substantial only in five percent of the organizations. In the opinion of those questioned, the effect of defective products (rejects, complaints) on the economy is negligible in 27 percent of the organizations, partial in 46 percent of the enterprises, and 22 percent of the respondents considered it to be substantial. Therefore it is clearly necessary to interlink consistent economic consequences of product quality with the material objectives in improving quality.

Interesting data were provided by the investigation on the reflection of losses connected with defective products in the economic results of the enterprise subdivisions. According to the respondents, these losses are not reflected at all in seven percent of the cases, insufficiently in 12 percent, partially in 38 percent, and fully in only in 40 percent of the cases.

In the case of new types of end products, usually there are increased demands for experimental analyses and technical inspections during production. The testing stations, laboratories, and technical inspection work stations should be equipped accordingly. However, the practice in our enterprises is very different, and most of them use basic municipal standards to grapple with the problem of equipment in their technological and production work stations. Under these conditions, one cannot expect a positive result of a possible certification test that would investigate the conditions for the stability of the quality of deliveries.

The results of the public inquiry also show that only 20 percent of the respondents have sufficient information to specify the development of product quality. More than two-thirds lack information in the following order: information on the direction of product development abroad, more detailed data on the purchasers' needs, more specific information on changes in foreign technological standards, etc.

One of the questions posed concerned opinions on the former tools for controlling quality from the center. The following were most frequently named as being obsolete: evaluation of products, price discounts and markups, as well as inspections performed by the VLK [People's Control Committee] control groups, the former method of planning R&D, and former price creation. Metrology, technological standardization, product approval, and possible long-term certification were most frequently considered to be useful.

The aspect of quality should, to a certain extent, get top priority during deliberations on changes in economic structures. When stipulating branch, departmental, or production priorities one must also bear in mind the quality level and the conditions to ensure its stability.

On the state control level, one must quickly set up a flexible and accessible information system on technological standards and norms that are applicable abroad, particularly international and European ones. Similar recommendations should also be made in relation to certification.

In developed countries a number of production, and especially control, operations may only be performed by those workers who can demonstrate a special professional qualification (acquired through certification studies). Neither our high school, nor our college and university system took the above-mentioned education into account, nor was it required in practice except in exceptional cases.

The product quality level is never a matter of chance. It is cheaper to manufacture high-quality products than low-quality products; without an improvement in the quality of manufactured goods, it will be impossible to create a prosperous economy. The Japanese were the first to realize this theory, and other countries were often forced to accept this philosophy through intense competition. We, too, will certainly be forced to do so. But the question is when, and under what conditions we are willing to accept quality in production.

#### Photo Caption

Chemosvit Svít is also trying to manufacture products of the highest quality possible. Therefore several stages of inspection "safeguard" product quality.

#### Wrong Concept of Enterprise Cause of Failing Economic Reforms

91CH0003D Prague HOSPODARSKE NOVINY  
in Czech 5 Sep 90 p 9

[Article by Dr. Dusan Novak, candidate for doctor of science, International Political Institute, Law School of Masaryk University, Brno: "Can Competition Break Down Old Fortress Walls?"]

[Text] The economic reform programs carried out in the countries of Eastern Europe have in recent years made many changes in systemic approaches, yet have failed to bring the expected results. It is obvious that in many areas these programs have been based on Soviet experiences. Due to the revolutionary changes currently underway, the expert press is writing about proposed alternative approaches, as well as about the more profound issue of why the results have been unsatisfactory, resulting in the economic stagnation of many of these countries.

Many experts criticize the slow implementation of individual new steps, writing specifically about sabotage by the bureaucracy, financial difficulties, an inappropriate price system, etc. The real reason for the lack of success, though, lies not in the details of monetary policy, or state intervention in market mechanisms, but in a basic conception. Reform proposals, especially Soviet proposals, are based on the assumption that the enterprise is the foundation of the economy, and that it is owned or managed by a collective of employees. Economists expect that ownership or administrative participation stimulates employee initiative and brings improved results to economic entities, whether they be corporations or state firms. In this view it will not be necessary to intervene in the organization of enterprises, just act from the outside, creating conditions that will automatically motivate the collective to better performance. In other words, creating a market economy on the model of the industrial countries, but retaining internal enterprise organization, even though they may become corporations. This strategy has resulted in stagnation in all previous socialist economies: Enterprises fail to expand

production, do not compete in the market, yet increase prices and improve their monopoly positions. In many CEMA countries economic conditions have worsened noticeably after reforms.

### **A Firm Is Not an Enterprise**

First it must be noted that the foundation of a capitalist economy is the private firm, while in the CEMA it is the state enterprise. These entities, however, are very different from each other. Private firms operate based on the interests of the owner, in other words its objective is to make a profit. It is characterized by strictness from the top down, with each manager supervising his or her subordinates to make sure they perform as expected, based on which that manager is evaluated by his or her own manager. The owner has a life and death connection to the firm. If he or his chosen manager does not manage the firm successfully, he will impoverish not only himself but his heirs as well. An owner and his managers battle on three fronts: with the employees, so they perform as well as possible; with market competitors; and with the state bureaucracy to pass favorable laws. The managerial group is well paid for these efforts, their compensation being very different from that of the other employees.

The owner of a state firm really has no representative. The director, to be sure, is appointed by some office, but is an employee just like everyone else. The state is represented by bureaucrats of a supervisory agency with unspecified authority. Since they are not direct employees of the firm they have no share in profits and have no economic interest in enterprise results. The collective of employees, from the director to the doorman, battle mainly for minimal output and high wages.

The state enterprise lacks a group that is closely tied to the performance of the firm. The director and other managers are paid low salaries, and no one can pay for losses because no one has any property. For this reason the employee collective represents a closed unit that deflects all attempts to improve efficiency. It is also bulletproof. It refuses to accept ambitious goals; even if they do not fulfill the plan workers must receive a wage, or social unrest threatens. Likewise it is not possible to punish a line worker who has fulfilled his quotas. It is completely illusory to expect that an enterprise organized in this way can increase production enough to meet demand, or that any customer market could come into being.

Many reform measures, especially in the USSR, have expanded employee rights still further. Full cost accounting, rentals, sales of stock to employees, even though they have only been partially implemented, represent a strengthening in the already immense strength of the collective, which has no economic enemies. Since prior commitments to meet plan goals and inspections are gradually being eliminated, the personnel has the potential to make decisions for the enterprise based on their own group interests. When workers here voice a

demand there is no group with equal power and different interests to take counter measures, as an owner and his managers do in the West. The economy is at the mercy of collectives that conduct a production, sales and pricing policy from the viewpoint of their wage interests.

### **Patience in the Wrong Places**

The oldest organized divisions were military units, and some principles of their management has been transferred to enterprises. Military organizations are characterized by high levels of leadership authority from the generals downward. The squad, battalion, and regiment are not debating societies and soldiers do not discuss whether or not to attack. Concerning Napoleon, history only emphasizes that he explained the purpose of his orders. In enterprises or firms the right to make decisions and manage stems from ownership, not from elections or other ways of expressing the wishes of employees. The operational purpose of an economic entity is to make a profit by selling goods or providing services to customers. Current state enterprises, however, are run for the welfare of the employees with priority given to raising wages, lightening the work load, and increasing recreation and sports.

CEMA economists are searching for elements in enterprise organization that can be a part of restructuring. They are discussing stocks passionately, but are not paying enough attention to the internal organization of private businesses. These are based either on ownership, or individuals entrusted with their management, such as a board of directors elected by stockholders. These managers have high incomes and authority. The senior management group is different from the other employees: It manages and answers for the work of the entire work force. Their position and compensation is closely tied to achieved results. This is why they lead the firm into fierce competition, fight against bureaucracy, increase output, implement rationalization measures, including laying off employees, etc.

No such differentiation exists in a state enterprise. The actual and legal authority of senior managers, based on regulations and the rules of organization, is very low. This is one reason that discipline and the work ethic are declining. To compound this undesirable situation, enterprises have imposed so-called social considerations, namely egalitarianism and an emphasis on physical work over white collar jobs. The view has become entrenched that strictness belongs to capitalism, while socialist management is equated with leniency. Managerial income is simply not tied sufficiently to enterprise performance. Bonuses are low, and as a rule easy to obtain. For these reasons the director and his employees do not feel bound to the owners of the enterprise. They avoid confrontations with their subordinates, and thereby place themselves among the employees. The state enterprise is like a fortress that successfully turns back all measures designed to improve efficiency.

### Strong Leadership

If restructuring is to be successful, it must change the state enterprise. The simplest and most successful approach is privatization. Such a radical step is not easy to implement, so it will be necessary to consider the changes that must take place in state enterprises for them to look like corporations, and then find the most acceptable conditions for implementation. Primarily, the united front of the work force has to be broken. The enterprise has to be run by employees with the authority and income of an owner. The director and other managers cannot be dependent on the will of the employees. They have to be able to take firm steps, in contrast to the sometimes drastic leniency that currently occurs. Their income has to be high enough to represent a perceptible share of profits. Only under these conditions will state enterprises behave like private firms: increase output, improve the work ethic, fire excessive workers. Such a dynamic enterprise in a democratic environment can even overcome the retardant influence of a state bureaucracy, which is the major complaint in the USSR.

The importance of enterprise activity is best demonstrated by the development of our economy after the Second World War. There were no significant differences between the behavior of state enterprises and private firms because nationalization did not affect the internal organization of the limited partnerships, corporations, etc. The tradition of a strong work ethic and managerial authority was retained. For this reason the Czechoslovak economy between 1945 and 1948 recovered from the losses caused in the war. Currency reform eliminated excessive purchasing power caused by the German occupation and the economy did not require any other measures, financial or otherwise. Well managed enterprises took care of increasing production, management, and the proper use of investments.

### Prospering Enterprises Needed as Basis for Successful Economy

90CH0449A Prague HOSPODARSKE NOVINY  
(supplement) in Czech 5 Sep 90 p 1

[Article by Eng. Stanislav Vacha, doctor of science candidate, Research Institute for R&D, Prague: "Five Question Marks: The Basis for a Successful Economy Is a Successful Enterprise"]

[Text] The list of problems connected with the transition to a successful market economy in our country is so long, and most of the problems are so urgent, that a wide range of priorities and alternatives is being created and submitted to help with the resolution. However, the proponents often allow themselves to be guided by a partial aspect and believe that salvation can be found in one major measure, which will become the "engine" of the reform. There are no engines. A functioning market economy must be created in its material and systemic entirety. One major "gap" is enough for the total effect of other rationalization measures to drain away. Therefore it is not possible to create it in gradual stages—first

solving one thing, then the next. Furthermore, it is necessary to recognize that a market economy has its own natural dominating force—the enterprising market entity. The latter must be the focus of attention: its formation, the stimulation of its entrepreneurial activity, and its regulation. Everything else is plainly subordinate to this main factor.

Most of the values are created in thousands of present state and cooperative enterprises. If they are to become competitive on European and world markets, a number of them will quickly have to change their production programs, concentrate their energies on suitable sectors that have the potential of being productive on a long-term basis, raise the standard of their products, introduce new technologies, decrease administration and inventories, increase their flexibility, decisionmaking, and internal demands. The decisive measures of the economic reform aim to force them to do this, as well as to enable them to do it.

### To Whom Do the Profits Belong?

The main purpose of entrepreneurial activity is profit. The greater the expectation of profit, the greater the incentive for entrepreneurial activity. This should always be borne in mind, but especially now, during the initial phase when one has to get the entrepreneurial offensive started. Achieving a profit in an exacting economy will be difficult, and the economic policies should not facilitate matters for the enterprises. But there should be minimal taxes on the profit, so that it will serve as the strongest incentive for enterprise.

From this point of view, the present high taxation of profit is a misunderstanding of the main purpose of the economic reform, and a manifestation of the old fiscal attitude, according to which the best place for a [Czech] crown was in the state treasury, and furthermore, every crown had to be taken away from the enterprises, so that they would not waste it. The state squandered the profits it had taken this way, partly by using them to maintain unproductive enterprises, and partly by using them for unprofitable investments.

It is best to leave the profit with the entity that made it; it will use it to develop the enterprise and to make an even bigger profit. In this respect, correctional measures should be adopted quickly, and the necessary resources for the state should be ensured in some other way.

### Who Makes the Production Move?

External pressures and the opportunities in an exacting economic environment do not directly set the enterprises in motion; this occurs through the entrepreneurial activity of the people who make the decisions on the behavior of the enterprise. Enterprise, particularly the management of the enterprise, is a demanding creative activity. It has its own internal psychological and social laws, and it is influenced by a broad range of factors, and

economic pressure on the enterprise is merely one of them. An important group of factors is formed by education, the appointment or removal of talented entrepreneurial managers, as well as social and political conditions that can be used as support for the authority of exacting managers in the enterprise.

One cannot overlook the fact that the transition to a radical economic reform in many enterprises is taking place in a climate of continuing revolt against the high requirements of enterprise. One of the ways in which the communist revolution manifested itself in enterprises was as the victory of the average and below average over the high creative requirements of enterprise managers.

The only thing to do is to elaborate and implement a whole system of measures to raise the professional quality and status of the management in our enterprises. This includes, for instance, competition for managers and leading employees, a system of evaluating and remunerating them, training in business schools, the publication of knowledge acquired by the most successful entrepreneurs, etc. The experiences of Greg, Cuba, and others should be an example to be followed.

#### **Will Privatization Stimulate Enterprise?**

Theories linked with privatization, and frequently naive proposals in this direction are a vivid example of how measures are taken out of context, how they miss the main purpose of the reform, and how they damage it through well-meaning endeavors. There are even people who, mesmerized by the word privatization, suggest a brilliantly simple solution: donate all state assets to the citizens in the form of property coupons. Fine, so the enterprises will be privatized quickly and easily, but how will this contribute to their entrepreneurial offensive?

However, privatization is extremely necessary, because the best support for the exacting management of an enterprise is an owner who has an interest in the capital, which he invested in the enterprise, increasing in value, bringing a profit, and accumulating. A group of workers who are pursuing other interests furnish bad support to an exacting entrepreneur in his selection. An official in the founder's agency, who invested nothing in the enterprise and has tens or hundreds of enterprises to worry about that he can, at best, know only superficially, furnishes mediocre support.

Privatization is necessary, but not at any price. Gradual privatization is right, so owners can be established who will have the interest and necessary knowledge to provide superentrepreneurial supervision over the management of the enterprise. Until such a time, all the efforts of much more qualified state agencies must be concentrated in this sector.

#### **Will Foreigners Get Us Started?**

If we do not mind working in a branch office of IBM or Philips instead of Tesla, there is no easier or quicker way to get the entrepreneurial offensive of our enterprises

started—as branch offices of international companies. Overnight these branch offices would receive new technology, truly competitive new products, and people would earn much more in them than in an old Czech or Slovak company. The top management in these branch offices would be replaced by English- or German-speaking managers from the central office. The profits from the branch offices and divisions of international corporations in our country would partly be reinvested, and partly drawn off in various ways.

This probably will happen in some sectors and enterprises. But under no circumstances would I recommend such a subservient and passive road to entrepreneurial offensive in our economy, which, in the long term, could even lead to a kind of a Central European Hong Kong. In its contact and cooperation with foreign capital, the management of our enterprises should retain a bargaining position, not merely as a representative of a cheap and qualified labor force, but also of high-quality technological and managerial potential.

#### **What Benefits Does Atomization Bring?**

Some macroeconomists believe that the main step toward a competitive environment in our economy is the breakup of large monopolistic producers. This problem, too, should be considered in relation to the predominantly radical reform, to getting the entrepreneurial offensive of enterprises started. Breaking up large enterprises into small ones is a kind of expropriation. The management runs a large enterprise, factories are split off from it, and the superior agencies support this in the name of breaking up a monopoly.

The rationality of creating domestic competition in this way can be incomplete and can—and often does—damage the rationality of a higher order: the requirement of stimulating enterprise. Breaking up enterprises, for whatever reason, always damages the sovereignty of the existing enterprise management from the outside, and weakens its enterprising spirit and highly demanding nature. In addition, reorganization preoccupies the management of the enterprise for months and paralyzes it.

After breaking up artificial, administratively created VHJ's [Economic Production Units] and large-scale enterprises, the situation should consolidate quickly in this direction. Efforts should be directed toward opening the economy to external intense competition, in which even large-scale enterprises can exist if they are managed flexibly and their internal units have a high degree of autonomy.

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Understanding what the predominant purpose of the reform is, furnishes a totally different structure for considerations on the possible alternatives for a solution. The reform should neither be slow nor fast. Both slow and fast are linked with losses. The optimal speed is given by the internal ability of the enterprises to adapt to increasing high demands. Judging from my many years

of experience as a deputy production manager of enterprises in the machine industry, most enterprises will be able to change their production program as well as realize additional necessary changes, in order to survive intense competition, within two to three years.

### **Laws, Bureaucracy Not Favorable to Entrepreneurship**

*91CH0003G Prague SVET HOSPODARSTVI  
(supplement) in Czech 16 Aug 90 p 1*

[Article by Vaclav Makrlík: "Don't Mark Time, or, Where Do We Go From Here?"]

[Text] Probably all citizens of this country who are concerned about its future political and economic development are asking themselves the question in the headline. This is more likely to be true of private entrepreneurs, who are bearing the personal risk for a concrete contribution to the state economy. While in the political area there have been significant changes, many of which can be considered major successes, in the economic sphere, which in the final analysis is the area where political gains will be confirmed and strengthened, there is a lot of marking time, with no one able to catch their breath. Put bluntly, the situation is getting worse rather than better.

The overall status of the economy naturally has a direct impact on private entrepreneurship, which should be an inseparable part of it. Unfortunately, though, private undertakings are still more or less on the economic periphery. The law that has been passed concerning private entrepreneurship by citizens has not changed this. The current state of the economy punishes just these people, directly, because they feel all the difficulties directly, in their pocketbooks. Recently one of the true entrepreneurs, a man who employs in a production facility about 180 people, complained that he has never had so little in his wallet as he does now, as a private entrepreneur. He immediately ploughs all his money back into the business. This wouldn't bother him, clearly, because he has to maintain the company and make payroll. What does bother him is that whenever he tries to order materials essential to his business and the jobs of his 180 employees from a state or other collective production enterprise he becomes persona non grata. To be sure, there are no de jure accounts (except for selected entries), but still all resources are allocated among existing firms. This person, who founded his business on 1 May of this year, when the private entrepreneurship law took effect, is some kind of excess baggage. He has to be content with scraps, if there are any. He is dependent on wholesale suppliers (Technomat, Rempo, etc.) If he doesn't want to go away completely empty handed, he has to resort to the morally abhorrent, but very effective technique of bribery. How well this will work in conditions of disequilibrium between supply and demand for almost all products and services (some people who make delivery decisions are counting on this) is another question.

Let's take another area. Taxes presently grant no special advantages to individual entrepreneurs. If one considers a business recorded in the enterprise register then it can be said that there are no tax advantages whatever, because income tax, transfers based on wages paid, and other taxes must be paid as if the small business was one of the above mentioned state or collective enterprises. The individual entrepreneur facing, it might be said, the initial capital accumulation phase essential to develop his operation, is therefore at a great disadvantage vis a vis state enterprises, which have (even if in most instances they are decrepit) facilities and (obsolete) equipment. In many instances this is very evident for private entrepreneurs in agriculture. Although the problem differs with region, or soil fertility, and therefore the extent to which it can be worked, the lack of machinery, seed, fertilizer, etc. will probably in many instances be the main retarding factor in the return to private entrepreneurship in agriculture. The administrative problems that of course still exist will sooner or later be overcome.

One also needs to look at private entrepreneurship from the viewpoint of foreign investment. Foreign entrepreneurs who might consider investing in our Republic are waiting for clear tax laws and, to put it plainly, significant tax breaks. They also clearly must have assurances regarding the export of capital and regarding ownership. Only when we meet these conditions can we expect a significant influx of private foreign capital into either the state or the private sector. But it would be premature to expect that there would be an investment boom in the CSFR immediately when these conditions are met. Experiences from the former GDR indicate that there is no great interest by foreign capital (even FRG capital) in investment, because local wage and social requirements are far less favorable for investors than in Southern Europe (Spain, Greece, Portugal, etc.). Most workers in the former so-called socialist countries, especially the GDR and CSFR, are accustomed to relatively high personal consumption. The previous regime more or less assured them this meager abundance, though by sacrificing the future for the present. The planned price deregulation of 1 January 1991, given our de facto monopolized economy and market imbalance, can create strong inflationary tendencies and an increase in social tensions the scope and outcome of which is very difficult to predict.

If our society decides to embark on the path of a market economy we have to be persistent, tough, and quick to move along the path. This means above all implementing a complete demonopolization and accelerated reprivatization and privatization. The private sector must be strengthened by granting all possible advantages to domestic and foreign legal entities. This will allow us to create, in a relatively short time, the conditions for restructuring the economy in a less materials and energy intensive form, and allow a market to form for desired products and services. This is the way to create, relatively quickly, enough jobs and to reduce social tensions.

It is also the way to eliminate market imbalances, which in the final analysis are the reason we are 40 years behind the times.

### **Change in Ownership Deemed Necessary Before Reforms**

*91CH0003E Prague ZEMEDLSKE NOVINY  
in Czech 27 Aug 90 p 1*

[Unattributed article: "Ownership Change Necessary"]

[Text] One of the foundations of a market economy is private ownership of the means of production. If there is not a fundamental change in ownership conditions, reform objectives will be threatened. This is why denationalization and privatization are being implemented. The initial legislative step in support of these processes is the government draft of a so-called transformation law.

The submission, discussion and passage of this key law is expected in October 1990. The law will not only define ownership rules for society, but also include provisions allowing the denationalization of entities currently under state ownership, and their transformation to private ownership.

An accelerated so-called small privatization will take place prior to the large, extensive program. It will be implemented in accordance with the updated Federal Ministry of Finance decree No. 119/1988, Laws of the CSSR, and agreements between Federal and republic governments establishing privatization regulations. These regulations will speed up the privatization of enterprises, retail, and service organizations until such time as the transformation law takes affect.

Under the small privatization program property (with the exception of property undergoing restitution) will be offered to domestic physical persons at auction, for cash. The sales will be conducted by appointed local commissions for privatization and restitution, which will be named by national ministries for privatization, in cooperation with the City and Village Union and delegates from the diplomatic corps.

Along with small privatization, restitution will be performed on the same type of property. This means returning property to original owners, or their direct heirs. This involves property that was confiscated without compensation from its original owners under government ordinance No. 15/1959, Laws of the CSSR, and in conjunction with ministry of Finance Decree No. 88/1959, Laws of the CSSR, among others. The specific technique for handling this property will be spelled out in the law concerning property restitution.

Larger state enterprises of locally managed industry and construction must be disbanded and reconstituted as state corporations designated for privatization, with the stock holders mainly being current employees, and provisions made to eliminate the possibility of speculation by old structures.

In addition to supporting small and medium sized business, the issue of large state enterprises (and enterprises at their level) will also be dealt with. The so-called transformation law will be the legal basis of this process. Commercialization (denationalization) of a majority of state enterprises should be complete by the end of 1990. Concurrently we must organizationally and financially restructure current state enterprises.

The next step in the large privatization process is the valuation of enterprises and their transformation into legal forms that will facilitate privatization. The most frequent form will be the corporation. Of crucial importance here is the naming of boards of directors for these corporations by 31 January 1991.

The sale of ownership participation in state enterprises (under large privatization) is beyond the current capabilities of our citizens. The only way to allow the general public to participate broadly and relatively quickly in the large privatization process is to sell them stock "below cost". Technically this process can be implemented using investment coupons. This method is very flexible.

The price of investment coupons for the general public, the structure and number (extent) of citizens participating, and the share of the total value of national property available will be decided by a special procedure, including mainly an evaluation of government objectives and their approval by pertinent diplomatic groups.

In addition to these nonstandard privatization techniques, standard ones will also be used, including:

- The preferential sale of ownership interests (stocks) to employees, and perhaps as well to ownership funds belonging to cities or towns.
- The sale of ownership shares or the entire value of privatized firms to domestic or foreign investors at market prices.
- The contribution of stock capital to joint ventures with foreign capital participation.
- Leasing parts of or entire enterprises to employee collectives or private entrepreneurs.

The outcome of the privatization process in some cases will be the proceeds from the sale of enterprises to private individuals (domestic and foreign). Concurrently, though, it will be essential to deal with the existing debts of current state enterprises. This will allow enterprises to enter the privatization process free of the negative consequences of the administrative/directive management system.

The overall process of settling accounts and determining revenues concerns money that was not generated from operations in an environment of developed monetary functions for the Czechoslovak koruna, but in an environment in which the Czechoslovak koruna had been stripped of these functions. In this situation one cannot



consider the income and expenditures associated with preparations for privatization and the transition of state property to private hands as real money. As such they must be separated from the currency and the budgetary spheres. The sole possibility is to designate them as an independent cycle in the area of state debits and credits, in the form of a special fund for state property. This fund will be managed according to special regulations.

### **Tax System Acts as Brake on Monetary Market Development**

*90CH0449F Prague HOSPODARSKE NOVINY  
(supplement) in Czech 29 Aug 90 p 1*

[Article by Eng. Karel Hanek, Commercial Bank, Prague:  
"The Securities Market: Support or Discrimination?"]

[Text] To have a full-blooded market economy, we also need a full-blooded money and capital market. In the same way, we must stimulate the creation of savings in Czechoslovakia which, compared to developed countries, is lamentably low. However, what is so obvious to theoreticians need not be so obvious in practice. I would like to illustrate this with the example of taxation of revenues from securities, which we now often encounter when selling first issues of Commercial Bank bonds.

Since a full functioning of a money and capital market is not possible without a massive expansion of various kinds of securities (shares, bonds, etc.), their issue by various entities should be given the green light. However, it is not merely a matter of the issuers' good intentions to issue the securities, it is also necessary to create conducive conditions among potential buyers that would provide an incentive for them to buy. It is becoming apparent that a very important condition of this kind is taxing the revenues from securities. Depending on how high it is, the tax will either support the development of the securities market, or cut it back.

The Commercial Bank and some other entities, which already started to sell securities this year, have had to cope, with great difficulty, with a certain vacuum that exists in the tax regulations at this time. The Citizens' Income Tax Law, No. 145/1961 Sb. [Collection of CSSR Laws] is still valid, but approval of a new, totally differently conceived law is just around the corner. The new tax conditions should be valid from 1 January 1991. The drafted law differs from the present regulations primarily in two ways. Firstly, it replaces the form of progressively increasing taxation of revenues from securities with a proposal of a uniform tax of 25 percent. Secondly, for income of this kind, it expects a direct deduction of the tax by the disbursement office when it is distributing the revenues (interest, dividends), and does not expect to use the system of tax returns.

When selling its bonds, the Commercial Bank always informs all its customers of their tax obligation to the state. But this is only possible in relatively general terms, since we do not know the exact tax rate at this time. Together with a large number of our bond holders, we

are unanimous in believing that the tax under consideration at a rate of 25 percent of the revenue is too high and does not create an environment that would provide an incentive to buy bonds or other securities. If we wish to create a functioning securities market as an important attribute to a market economy, the state and its tax policies should support the holding of securities.

Tax discrimination against investing money in securities, is particularly blatant in comparison to current savings in accounts or in deposit books. This is because the draft of the Citizens' Income Tax Law does not expect to tax the interest on this kind of savings, and thus unjustifiably gives preferential treatment to it. Yet the economic nature of revenues from savings and revenues from securities is the same, and therefore it would be proper to use the same yardsticks for their taxation. If the money invested by citizens in securities comes primarily from their wages and salaries, and as such has already been taxed, it is not right merely to tax revenues from securities and leave savings untaxed.

In fact, one could give a number of reasons why conditions for investment in securities should be more advantageous than for the creation of savings. While the traditional type of savings have a long history in our country, financial investment in securities is a new alternative, or rather, one that was forgotten during the past decades, and its development must be helped by providing better conditions, including taxation.

Investment in securities could have a significant influence in limiting excess demand by the citizens on the domestic market, since a citizen who buys securities forgoes using his money on the market either permanently, in the case of shares, or temporarily but on a long-term basis, in the case of bonds or other similar investments with longer maturity. Traditional savings in accounts and deposit books do not provide this kind of guaranteed limitation of the citizens' buying power.

Thus support of the primary and secondary securities markets logically should be a part of the system of restrictive and anti-inflationary macroeconomic policies being implemented by the present government. They should be reflected in tax preferences for revenues from securities, or at least in the equal taxation of them and of revenues from traditional savings. It may be possible to bring some counterarguments, however, the above-mentioned merits of securities should be taken into account when preparing the new tax regulations.

The suggested system of selecting citizens' income taxes expects a direct deduction made by the disbursing office in the case of the tax on revenues from securities. To give a specific illustration: in the case of Commercial Bank bonds, assuming a uniform 25-percent tax, the person who would present a semiannual coupon would not receive the nominal eight percent, but only six percent. The remaining two percent would be transferred as a tax directly to the financial tax agency. To be sure, this



system is more rational than a system that depends on tax returns, and it eliminates the possibility of tax evasion. But it also has a major disadvantage in that it discredits the issuers of securities in the eyes of the owners of the securities, and thus also partly inhibits interest in this reintroduced type of financial investment. If it is generally expected that the system of tax returns will be expanded, it should be implemented from the very beginning for revenues from securities.

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On the one hand, it is right that we are preparing grandiose projects to open a stock exchange, but on the other hand, one should realize that, in order for an exchange to come into being and to function, interest in investing in securities must be supported. One option is to support these investments through taxes, and not to use taxes to discriminate against them.

### **Tax System Required To Encourage Investments**

*90CH0449D Prague HOSPODARSKE NOVINY  
(supplement) in Czech 29 Aug 90 p 1*

[Article by Ladislav Benes: "Tax Reform—But When?"]

[Text] Apart from denationalization and privatization, prices, and the rate of the Czechoslovak crown, the tax and dues system is one of the most important and sensitive areas in our transition to a market economy. Taxes and dues have a considerable influence on determining the price of products and services, and delimiting the financial resources provided to organizations and citizens for their use and consumption.

A new, universal system will be created through the new tax system, which will include direct and indirect taxes and payments made by enterprises, by private entrepreneurs, and by the citizens. This system will be based on the tax system that is being prepared in the countries of the EEC and is to be implemented after the creation of the unified market.

The basis of the new tax system will be a value-added tax, similar to that in the countries of Western Europe. It will be added to the realized sales of every entrepreneur, irrespective of his legal status, the nature of his operation, or the sector of the national economy. The individual who pays this tax, deducts the tax he is liable for from the tax paid to suppliers; in essence, he pays it from the net production he has created. Very few rates are applied with this tax. This constitutes the difference between it and our sales tax; it is universal, simpler, and more comprehensible. Analogously, an import tax is applied to imports. In a limited number of products (e.g., alcoholic beverages, tobacco products, and fuels) the value-added tax will complete consumer taxes set as fixed rates. The above-mentioned three taxes will replace the former sales tax.

The enterprise and company tax, which will replace the former profit taxes and dues, will be a significant tax for

organizations. By amending the basis of this tax, it will be possible to push through various objectives of the national economic policy (e.g., in ecology).

An analogous tax for the citizens will be the income tax, which will include the former tax on wages, tax on literary and artistic activity, tax on citizens' income from agricultural production, and citizens' income tax. It will be a universal tax, and its payment will ensue both through deductions and on the basis of tax returns.

The new tax system will also include a road tax, paid on trucks and buses, and a real estate tax, to which everyone who uses land, buildings, or other structures will be subject; this tax will replace the land tax and the residential tax.

Within the framework of the tax reform, an inheritance and gift tax (that will replace the former notary payments for inheritance and gifts) will be introduced, and the payments will be reregulated.

The method of selecting taxes will be more strictly defined. For this reason tax offices will be set up. There will also be a redefinition of the allocation of tax revenues among the Federal budget, the budgets of the Republics, and the municipal and community budgets.

In the new tax system the tax on the volume of wages will no longer be applied. It will be replaced by social (pension) and health insurance.

A serious problem is when to put the new tax system into operation. On the one hand, it is an extremely complex and wide-ranging system; the enterprises and citizens should be given a reasonable lead time (at least half a year) to become familiar with it before it is introduced. On the other hand, the system should be put into operation closely linked to the domestic convertibility of the Czechoslovak crown, and to price regulations and the liberalization of prices, which will take place in 1991 and 1992. A subsequent introduction of the new tax system would mean major intervention into the created value relations. One can expect some regulation of the current system in 1990 (the unification of the turnover tax rates), and then from 1 January 1991 (bringing the dues rates and profit tax rates closer to each other). According to one alternative, the fundamental change in the tax system should not be introduced until 1993, according to another alternative it would partly occur in 1992 and be completed in 1993. This will be decided in connection with, and during the debate on, the economic reform scenario.

### **Establishment of New Tax System Viewed**

*91CH0003A Prague HOSPODARSKE NOVINY  
in Czech 12 Sep 90 pp 1-2*

[Interview with Arnost Culik, Czech Republic deputy minister of finance, by Petr Stepanek; place and date not given: "Will It Prevent Tax Evasion? On the Formation of a New Tax System"]

[Text] Tax income is the basic pillar supporting the state budget in a market system. A new system of financial offices, previously known as the revenue office, has been charged with tracking these revenues. In conjunction with the economic reform schedule, the government is currently drafting a law concerning financial agencies, which is scheduled for discussion by the Czech National Council in the Fall. The new revenue offices are scheduled to open in January 1991. We interviewed Czech Republic deputy minister of finance, Arnost Culik, about the concept behind these offices.

[Stepanek] Will these be tax or financial offices?

[Culik] In view of the concept behind these new divisions in the tax sphere the word tax seems too narrow a term, so we are not in favor of it. These offices will not be engaged solely in collecting taxes. They will be involved in both state budget revenues and expenses. They will administer and provide control over subsidies, such as noninvestment subsidies for agriculture, which current financial administrations provide. The main concern of these employees is, though, to really become an administrative office for taxes, payments, and transfers of all kinds, with the exception of local taxes. They are intended to perform tax assessments and levying, and will be accountable for the accuracy of assessments. Plans call in the CR for setting up 271 financial offices of this type, 85 of which will also administer subsidies.

The planned transfer of customs policy from the CSFR Ministry of Foreign Trade to the Ministry of Finance will create a new operational area. While customs policy would be formulated on the federal level, the actual implementation of the policy would fall to the republics. Our financial offices will be an integral part of import duty administration which, under the new tax system, will be closely related to a value added tax and a consumption tax. They would carry on the tradition of the first republic tax offices rather in the quality of their work and their efficiency than in name.

[Stepanek] Does the organization and location of these new financial offices meet the standards for a modern tax system?

[Culik] I am convinced that the answer is yes. We are proposing a two level system, in which a financial directorates will administer individual offices (there are about eight of these). These directorates also become the appeals office. Their main task, though, is methodological management, which includes supervision as well as overall logistical support for the financial offices, with computers, for instance, and other essential equipment. For example, this year these offices will need 125 personal computers, and next year an additional 650. The individual office managers, moreover, are connected to the ministry of finance by a central computer. We would like to use the current regional financial administrations, as the natural and still the most experienced base, from which these offices could be formed. The proposed

system can also be modified for provincial management. Only the managerial superstructure would have to be reorganized.

Our goal is to bring the financial offices as close as possible to the taxpayers. Offices will be located throughout the Republic, based on projected load and local economic activity. There will be more than one in each district. They must be allowed to operate flexibly, so they can keep a good handle on all taxpayers. One of their most important tasks, you see, will be so-called determination activity. This means that they will not wait for a taxpayer to voluntarily declare his tax obligations, but will conduct their own investigations of tax compliance to decide if there has been any tax evasion. In these activities they will cooperate with trade and other offices. Entrepreneurs and others need have no fear that the financial offices will not find them. They will know plenty about them. By approximately the end of 1991 they are slated to have 9,500 employees, or 7,500 more than currently. By 1993, when the new tax system goes into effect, they must have fully trained tax inspectors.

[Stepanek] What are the qualifications for the job, and what authority will inspectors have?

[Culik] Directors of financial offices and financial directorates are to be chosen strictly competitively, in the presence of representatives of the Ministry of Finance and the public. The conditions of the competition will differ for each position and be approved by the minister of finance. The job will hold a lot of prospects for many college students. The ideal age range for a tax office manager will be between 35 and 45. We can offer them a good salary, so these state officials will not have to hold second jobs, such as tax advisors or specialists on various enterprise supervisory councils, which might lead to conflicts of interest. We will check the moral as well as the professional qualities of applicants. Only smart and incorruptible financial experts will be successful.

Thorough training will be available for all employees. They will first learn about the entire range of activities of financial divisions. Each will then specialize in a specific type of tax to which to devote their professional efforts. Examples include corporate taxes, social taxes, and income taxes. The trainee must know the current law and expected changes, but above all have a deep understanding of the structure and application of the most important tax under a market economy, the value added tax, which is common in West European countries. We will utilize the experience of our Austrian colleagues, whose system is the closest to our own. We are also studying other foreign models, including the French and the German.

If our people discover inequalities in taxpayer obligations they will of course apply sanctions. At present these are criminal penalties. The new tax system is supposed to include a management law for matters involving taxes.

Individual tax law modifications in the future will contain direct penalties for noncompliance. The state can take no chances with tax evasion. For this reason we are approaching the establishment of financial offices seriously and responsibly.

### Steps Toward Internal Currency Convertibility Discussed

91CH0003C Prague HOSPODARSKE NOVINY  
(supplement) in Czech 5 Sep 90 pp 1, 4

[Article by Eng. Petr Spacek, candidate for doctor of science, Federal Ministry of Finance: "In Steps, or by 1 January?"]

[Text] The arguments of economists who advocate a careful approach to introducing koruna convertibility appear very strong. In his article, "Internal Convertibility—When and How?" (HOSPODARSKE NOVINY No. 29/1990), Z. Sulc provided a clear picture of the risks of a one time transition to so-called internal convertibility, as proposed for 1 January of next year. He used for this article materials of the former Federal Price Office, along with the final working version of Czechoslovak State Bank [SBCS] materials, and seriously evaluates the possible consequences and probable impact of proposed related measures and instruments. The size of the risk involved in introducing internal convertibility and the danger of failing to meet budget guidelines and implement currency policy leads him to the conclusion that a two step approach would be safer for the Czechoslovak economy. The first step would involve price deregulation (and expanding the free market in foreign currency, i.e. the current foreign currency auction). The second step would depend on the results of the first phase, but Sulc recommends dealing with the issue of strategy for the full deregulation of exchange rates and foreign trade only in this second phase.

For this discussion it will be useful to remind readers of the recent history of the convertibility strategy in Czechoslovakia. The initial strategy was formulated by the SBCS and Federal Ministry of Finance, and was adopted in the Fall of 1989 by the Federal Government as, for practical purposes, the most courageous step in the so-called restructuring of the economic mechanism.

### The Situation a Year Ago

This plan, in simple terms, was based on the following gradual steps:

—The first phase was to utilize so-called coefficient functions or a koruna exchange rate, without the existence of convertibility for hard currencies. In a few years domestic prices were to adapt substantially to world relative prices. The process was to start with the prices of raw material inputs, which were to be derived from prices in convertible currencies. Concurrently economic entities were to be exposed gradually to external economic conditions. This was to include elimination of FENZO [expansion unknown] type

mechanisms by granting rights to conduct foreign trade to production enterprises. This was expected to lead gradually to an opening of the Czechoslovak economy.

—The second phase in introducing convertibility is known as internal convertibility, or utilizing exchange rate functionality. The functional openness of the Czechoslovak economy would already have been assured not only through calculations, but by the actual transmission of world market value relationships through koruna convertibility. In this stage price formation is supposed to be deregulated, and retail prices directly connected to wholesale prices.

—In the third phase an ever expanding internal koruna convertibility would be introduced, in a form similar to that for Greek drachmas or Spanish pesetas, namely without any great ambitions that the koruna could compete with the West German mark for the function of international legal tender or a reserve currency.

This kind of program for achieving convertibility was influenced by experiences from the system of European payment unity from the 1950's. West European countries, during the gradual introduction of convertibility for their currencies, did not have to revive their domestic market mechanisms—the deregulation and introduction of market principles applied to foreign economic relations. Therefore it seems proper for the Czechoslovak economy to first make the transition to an internal market, and only then begin to introduce convertibility gradually.

The individualized foreign currency standards that have been introduced correspond fully to this concept. Plans call for these individualized standards to be gradually unified until a single standard can be introduced. The gradual implementation of the appropriate measures is assumed in further measures, including the tax system. Skepticism reigned, however, concerning the duration of the first phase, because one important piece of the implementation was lacking—the courage to admit and recognize that the introduction of convertibility and functional openness to our economy would be a process full of conflict, a process that could very quickly lead to a significant fragmentation in the income distribution of enterprises, and therefore of the people working in them, to prosperity for those firms that export successfully and to bankruptcy and unemployment for those that were unsuccessful.

There is no better economic mechanism than convertibility, you see, for implementing macro, midrange, and microstructural changes. In other words, it is an efficient and, if you wish, a drastic means for implementing once popular, but ineffective damping programs. If convertibility is implemented, among other things there will be immediate sales problems for a number of products produced only for the Czechoslovak market and for which there are potential imported substitutes if the exchange rate is right.

A year ago there existed a real possibility for making the transition to convertibility. Let us remember that the CEMA had just begun discussing whether the transition to world prices would be made over five, three, or two years and, moreover, in their clearing form. Countries like the GDR refused to discuss the possibility of forsaking the convertible ruble and the custom of mutually interrelated and guaranteed deliveries. The synchronization of steps between the CEMA and the rest of the world in the economic mechanism was therefore focused on the years 1993-95 in the belief that our economy could withstand the delay and be prepared for the transition to a market economy. The internal economic mechanism would be restructured and in no way radically changed.

### The Situation Today

The situation today is completely different. The sales problems for our goods on the CEMA market will increase significantly, in part because our trading partners will have nothing to pay us with. It is illusory to assume that, for instance, all current Soviet import enterprises will have or will be allocated in time the hard currency resources, or that the banking systems of some countries will handle the transition well to accounting in hard currencies, etc. The basic value relationships will change not only for our exporters (instead of the convertible ruble, it will be the dollar in the best exchange rate vis a vis the koruna, but at a much lower price), but for Soviet importing enterprises as well. While we are discussing an exchange rate in the range of Kcs17 to Kcs24 to the dollar, on 1 January we might find exchange rates in the Soviet Union to be astronomically higher. The point is that we cannot put off the transition to a market economy but must make it in a single step.

The example of the European payments union is still very persuasive and logical: The gradual introduction of convertibility for the West European currencies, the lack of conflict in the process, from today's perspective, is the subconscious argument of us all for a gradual process. At that time however what was being formed was a European payments mechanism, while we are "just" beginning and must adapt to the world economy on its own terms. Our situation is different from that of the Western European countries in the 1950's. Whether we fear this step or not the introduction of market conditions within the Czechoslovak economy is impossible without the sharp utilization of external economic conditions, without introducing internal convertibility and the functional opening of the economy.

Practically the only, but still a fundamental, error of Z. Sulc is that he advocates deregulating domestic prices without introducing internal convertibility. Hungary tried this approach for several years, and even achieved (in conjunction with other measures) equilibrium on the domestic retail market, but did not embrace convertibility any more than Czechoslovakia. This form of price deregulation seriously increased the inflationary pressures in Hungary, a problem it will have to contend with

for several years now. The policy also allowed a number of ineffectively manufactured products to remain on the market for several years.

### Government Strength Decisive

Internal koruna convertibility is the only possible way to create the competitive environment needed to support price deregulation in the Czechoslovak economy. Internal convertibility is only the expression in the currency of the deregulation of imports, or the potential for import competition and foreign market conditions. (In this regard one must accept a certain surcharge on the customs price of imports, which should be imposed for a short time with the agreement of GATT [General Agreement on Tariffs and Trade], as a necessary instrument for protecting Czechoslovak producers and allowing them to adapt to the competition. It should only be a temporary measure though.) The deregulation of domestic prices without convertibility would be the best way to unleash inflation without a solution.

The critical aspect in the success of the transition to market conditions will be the success achieved in preventing new inflationary pressures a resulting increase in the money supply and prices after the one time increase in the price level. This is why measures in budgetary and monetary policy are so important, and why they have to be uncompromisingly restrictive. (Z. Sulc notes several of the risks involved in implementing restrictive measures, but it is possible to hold a different opinion on their probability.)

Government strength is crucial here, the extent to which it holds the line and withstands pressure to moderate the harsh consequences of the transition to market principles and the introduction of convertibility. The side taken by parliament will be critical to the course of the economic conflict in 1991, whether it stands behind the government or on the side of the less successful enterprises. There will be truly fierce pressures to renew and increase subsidies, to rescue enterprises.

Some measures involved in introducing a market economy can be implemented later, or are impossible to implement by 1 January of next year. One such thing is tax reform, for which we will adopt the model of countries of the European Community, and which will take up to two years. Demonopolization and privatization will also take considerable time. But decisive measures in prices, exchange rates, interest rates, in overall budgetary and monetary policy, including the introduction of convertibility, must be introduced in a single package.

The issue of the magnitude of exchange rates is worth a discussion of its own, but it would be a discussion with theoretical importance only, like discussions by scholars concerning exchange rates to the west of our borders, or like certain other worthless discussions in this country about whether an exchange rate has one or seven functions. It is simply impossible to set a correct exchange rate level. This level is determined by the market, because the rates involve the currency of one country

expressed in the currency of another. (Coefficients can be calculated only when there is no convertibility.) Our external lack of equilibrium allows us no other approach but to adjust relative values, given the significantly submarginal level of the koruna exchange rate. Clearly there is a question of how large an intervention fund will be needed to maintain the initial exchange rate of the koruna to hard currencies.

From both an economic and a psychological perspective it is advantageous to be able to draw on a larger credit line in case of need because, especially in the first months after convertibility is implemented, the SBSCS should not have to face possible danger of exhausting its intervention capability on the currency market. Negotiations on this question continue not only with the International Monetary Fund, but also with the Commission of the European Community.

There certainly exist other approaches which differ in terms of the timing and severity of the steps. Instead of a one time deregulation of domestic prices and introduction of convertibility one could propose that by 1 January 1991 a uniform foreign currency standard be introduced and the role of the foreign currency market be significantly strengthened. This would amount to introducing a "halfway" internal convertibility and partial price deregulation (utilizing price limits, percentage of potential growth, etc.). My fear, however, is that the sole outcome of such a policy would be a very temporary maintenance of an exchange rate of Kcs17 to the dollar, and no more. The second step towards convertibility would then take place at an exchange rate worse than Kcs24 to the dollar, and in a climate of permanent inflation.

The world economy has not been calm for an extended period at any time in the past 20 years. We will be able to react to both negative influences, and the positive consequences of the international division of labor, only if we are not an isolated island in the center of Europe. The earlier we open our economy, the greater our chances of success. Without koruna convertibility we will be operating only in simulated conditions and in a greenhouse or, in the best case, a simulated market economy.

**Accounting Association, Consultations Established**  
91CH0003F Prague HOSPODARSKE NOVINY  
(supplement) in Czech 12 Sep 90 p 1

[Article by Radomir Kosina, Federal Ministry of Finance: "Accounting Advisory Services"]

[Text] With the transformation to a market economy, financial questions have undoubtedly become a major interest of the general public. One positive element in this trend, in my opinion, will be a greater interest in the application of accounting, as well as budgeting and calculations in management, because without these techniques almost no economic entity will be able to survive under the new conditions. This is because under "harsh"

competitive conditions that demand efficiency, good management, and quality it will be essential to utilize accounting and other techniques well, not only as the necessary precondition for calculating transfer payment and tax obligations.

In this regard one can only welcome the establishment recently of interest groups and professional organizations engaged in the important task of consulting. I consider particularly progressive those organizations oriented mainly to meeting organizational needs for accounting, calculations, compiling and evaluating budgets, forming enterprise organizational structures, as well as performing audits. There must also clearly be mutual benefit for both the consulting organization and the client company, when the consulting firm is chosen as a partner (for a fee) to deal with selected enterprise and internal enterprise management issues.

The fact that, in addition to the proven volunteer interest groups, The Accountants Union and the Slovak Union of Accountants and Auditors, which are now being formed from existing local branches of accounting and statistics, new, mainly professional groups are being established is gratifying. These new groups frequently have wider objectives (for example Pragocounsel, state enterprise, and Impuls corporation) and are often small organizations based on new forms of ownership.

Questa, a limited liability corporation, offers organizations and citizens professional advisory, planning, and implementation assistance in the fields of auditing, tax obligations, accounting, compensation, the new field of franchising, or assistance in setting up private businesses, state enterprises, etc. Questa also is involved in the formation of target strategies, entrepreneurship philosophy, and the creation of entrepreneurial models.

The CSFR Accountants Union is a professional association of financial accounting specialists and auditors that is studying the current regulations for keeping accounting records, as well as reporting and record keeping requirements abroad (including international standards), and supports their introduction in our economy. It makes its findings and information available to the public, professionally in the form of lectures and seminars, and practically by assisting interested parties from specific organizations and private businessmen.

The organization ACE (Valuation and Consultation Center for the Economy) is active in Slovakia. Its activities are focused mainly on issues of enterprises and internal enterprise management. It performs advisory, consulting, and auditing services, and uses techniques from sociology or psychology when necessary in its work. This again is a service available to organizations that is both interesting and needed.

Other domestic organizations are also active, and foreign companies have also opened offices. The most important of these include Price Waterhouse, KPMG, and Ernst & Young.

I think that the arrival of these foreign companies in the CSFR not only increases the competition for domestic organizations, but also increases the quality of the services provided, which will benefit everyone in the long run.

**'Denationalization' of Food Industry Viewed**  
*90CH0454D Prague ZEMEDELSE NOVINY*  
*in Czech 27 Aug 90 p 5*

[Article by Tomas Smetana: "Denationalizing the Food Industry"]

[Text] The issue of denationalization, along with a number of other economic issues, was taken up in a document drafted by a collective from the Prague Research Institute of Agriculture and Food Economics [VUEZVz]. This collective also helped draft the strategy for radical economic reform in the agrofood complex. In a somewhat abbreviated and condensed form the part of the above document related to denationalization was published in the "Zemedelec" supplement to ZEMEDELSE NOVINY on 11 July 1990. I would like to comment on this article and point out the advantages of the cooperative form when denationalizing the food industry.

The need for agricultural enterprises to participate in the processing of agricultural products into foodstuffs and in the sale of these goods has been emphasized in past years. It has been shown that what is critical is not necessarily the economically noticeable impact resulting from participation in final production, but above all the guarantee of a steady market for agricultural raw materials.

The recent price restructuring and its consequences fully confirmed the accuracy of these views and demonstrated that involvement in foodstuff production and sales is a vital necessity for agricultural enterprises. It has turned out that under exceptional conditions not even contracts and agreed upon delivery patterns for livestock and plant production are an adequate guarantee.

Agricultural enterprises that have their own slaughterhouse, processing plant, and store, or which have integrated their operations with those of other agricultural or food processing enterprises for the final processing and sale of meat and meat products have by far more favorable conditions for overcoming periods of significant decline in consumer demand caused by excessive increases in the retail price of beef. Unfortunately very few agricultural enterprises have involved themselves in these kinds of arrangements.

An expansion in the activities of an agricultural enterprise and a focusing of its entrepreneurial activity on final food processing and sales is impractical today for many reasons. A number of entrepreneurially oriented firms would like to become familiar with the demanding technical, procedural, hygienic, labor, and training

requirements, and with the difficult task of finding the equipment for retail displays, even if this involved significant difficulties.

National economic developments, and especially the insensitive attitudes to the agrarian food complex in recent years (and in recent weeks) has caused a significant proportion of agricultural enterprises to be incapable of undertaking significant investments either with their own resources or with loans.

Agricultural enterprises are therefore merging their forces in an attempt to build joint foodstuff operations and commercial facilities. Even under these conditions the financial requirements may be out of the reach of individual partners. The disadvantage remains that undertaking new construction requires a long time and therefore cannot stabilize sales of agricultural raw materials immediately.

The denationalization process in the food industry and business brings new possibilities for implementing direct ties between agricultural cooperatives and final food processing and sales activities. Food processing plants could, for instance, be denationalized by changing them into joint cooperative enterprises or by associating them with an existing cooperative enterprise.

This approach can be advantageous for both sides. Agricultural cooperatives obtain guaranteed sales of their raw materials and a share of profits from final production without difficult capital construction and, mainly, much sooner. The food processing plant gains a guaranteed source of raw materials and the potential for more rapid product innovations and therefore competitiveness, which holds the promise of prosperity in difficult market conditions.

It is possible, of course, to utilize other possibilities offered by the denationalization of the food industry, including the formation of corporations or privatizing into private ownership. Cooperative forms for denationalizing the food industry, however, have certain advantages mainly in that they enable the effective subordination of the interests of all participants in the production process to its final needs and revenues, while at the same time respecting the characteristics and biological necessities of agricultural production. In a corporation, where capital contributions are expected from those other than the immediate participants in production, a similar congruence of interests is more difficult to obtain.

**Nonferrous Metal Production Potential Evaluated**  
*91CH0003B Prague HOSPODARSKE NOVINY*  
*in Czech 5 Sep 90 p 6*

[Article by Eng. Mirko Sindelek and Eng. Svatopluk Theodor, doctor of science candidates, Technical and Economic Research Institute for the Metallurgical Industry, Prague: "Produce or Import: Results of an Analysis of Nonferrous Metals Production"]

[Text] In conjunction with the planned restructuring there is frequent discussion of whether it is more advantageous to obtain our primary nonferrous metals in the future by continuing to produce them ourselves, or to begin to import them. An analysis of the production efficiency of aluminum, copper, and nickel at our institute provided a number of findings that are important for our decisionmaking.

We based our analysis of the national economic efficiency of domestic metals production on actual enterprise calculations of their production costs. We took these calculations and modified them to account for any planned modernization, based on project documentation, but mainly by reevaluating all important material, fuel, and power inputs in terms of the national economic acquisition costs.

For imported raw materials and fuels, as well as for primary metals, we based our figures on current and projected world market prices and the direct business costs of imports. Because the advantage of domestic production is heavily affected by exchange rates we made all calculations according to two scenarios: the current exchange rate of 17 Kcs per dollar, and assuming an exchange rate of 10.79 Kcs per dollar. This is the standard exchange rate used by the Projections Institute of the Czechoslovak Academy of Sciences [CSAV] in work on the Aggregate Projections for CSSR Economic and Social Development Through the Year 2010.

The Slovak National Uprising Plant in Ziar nad Hronom is a monopoly producer of primary electrolytic aluminum in the CSFR. The factory produces about 66,000 tons per year, which represents less than one third of total domestic aluminum and aluminum alloy consumption. The obsolete production technology currently in use (using self sintering anodes) is characterized in relation to modern technologies not only by high standard electricity consumption, but more importantly by the significant environmental damage it causes. Because the CSFR does not have inexpensive electricity, but mainly because the environmental degradation in the Ziar basin has become unbearable, there are only two alternative solutions: stop producing aluminum by the old method and begin importing it, or modernize production in a way that minimizes damage to the living and working environment, while providing comparative economic advantage in relation to imports.

A detailed analysis of a projected modernization of aluminum production at a capacity of 105,000 tons per year using a less energy intensive technology showed that:

- At a projected world average price of \$1,925/ton and direct import business costs of \$261/ton for aluminum blocks, at the current exchange rate of 17 Kcs per dollar domestic production is more advantageous than importing, even when valuing electricity at its full national economic costs or imported price;

- At an exchange rate of 10.79 Kcs per dollar (which is unrealistic in the foreseeable future) and valuing electricity at its full national economic cost, importing is more effective than domestic production;

- When electricity is valued at reduced national economic cost based on special consumption rates for suppliers, an exchange rate of 10.79 Kcs per dollar makes domestic production more advantageous than imports. For the same reasons, reductions amount in Austria to 37 percent, and in France to 47 percent of the price.

The above facts imply that after modernizing electrolysis domestic production of primary aluminum will be more advantageous than importing it. Shifting aluminum production technology to previously burned anodes will also radically improve the environment in the Ziar basin (emissions alone will be reduced by 3,800 tons per year). Continuing the domestic production of aluminum is also important in terms of employment in this area and will contribute to the efficiency of related products at the Ziar nad Hronom Slovak National Uprising Plant (a formed castings foundry, the production of pressed semi-finished goods, etc.).

Cathode copper is produced by the Krompachy Kovohut plant. The plant produces about 24,000 tons per year, about 40 percent from concentrate and 60 percent from waste. Some of the processed concentrate is domestic, some is imported. Sulfur oxide and arsenic emissions are a major problem during production. The ore portion of the plant must be modernized to achieve ecologically acceptable emissions levels.

We evaluated the production of cathode copper based on the utilized raw materials (concentrate, low quality waste, and pure copper waste), which are processed differently. It turned out that based on a projected import price of \$2,413/ton for cathode copper (a world price of \$2,340/ton plus direct import costs of \$73/ton) and using both the current and projected exchange rate it is most advantageous to obtain cathode copper from copper waste, with the next best alternative the importing and production from quality foreign concentrate, and the third best alternative production from domestic concentrate.

Given the current composition of the charges for production from primary raw materials, the foreign currency costs of importing the copper concentrate and natural gas to produce 10,000 tons of cathode copper would amount to about \$13.5 million. If these cathodes would be produced from only imported concentrate the foreign currency costs would rise to \$20 million, which is only about \$4 million less than the costs of importing 10,000 tons of copper cathodes.

The Sered Nickel Foundry produces electrolytic cathode nickel. Its annual output fluctuates in the vicinity of 2,600 tons. The current low level of production efficiency is due to the processing of high volumes of low quality ore from Albania (less than one percent nickel).



Shifting to higher quality ore (such as from New Caledonia) or concentrated raw materials would offer some improvement in nickel production efficiency. But producing from higher quality ore would not solve the ecological problem presented by the presence of leaching. The conditions do not presently exist for the economic processing of this metal. For this reason these comments concern only nickel production from Albanian ore with small supplements of nickel oxide from Cuba.

Our analysis indicated that at an exchange rate of 17 Kcs per dollar domestic nickel production is more advantageous than importing as long as the world price remains higher than \$10,618/ton (or \$13,027/ton at a rate of 10.79 Kcs per dollar). In 1990 for instance the expected average world price for nickel will be \$6,400/ton.

Calculating the actual foreign currency intensiveness confirms the disadvantage of domestic production over imports. These calculations indicate that foreign currency costs for material and energy inputs to produce one ton of nickel are in the vicinity of \$7,000.

Even though we have not been able to go into detail in this article on all aspects of the problem in the title we consider it desirable to modernize and expand as fast as possible aluminum production at the ZSNP plant in Ziar nad Hronom to 105,000 tons per year. It would also be advantageous to further develop cathode copper production at the Krompachy Kovohut plant, but the state should not contribute to the modernization of the ore part of the plant. Any shortages of copper cathodes can be compensated for by imports. It would be desirable, based on comparative economic efficiency, to replace nickel production from Albanian ore at the Sereď Nickel Foundry with production from concentrated raw materials or with imports.

#### **Coal Criticized as Inefficient Source of Energy**

90CH0449C Prague HOSPODARSKÉ NOVINY  
(supplement) in Czech 29 Aug 90 p 7

[Article by Jiri Klener, doctor of science candidate, Research Institute of the Fuel and Electric Power Complex, Prague: "Source of Profit or Source of Poverty?"]

[Text]

#### **Discussion of the Article "Controversy About Coal," HN, No. 25/1990**

Vladimir Siba's article is echoed by coal miners and obviously by other readers as well. It would be a very natural reaction. After all, years of constant deformation of coal prices, which V. Siba points out—not for the first time—and which is one of the causes affecting the high energy demand of our industry, also has very serious consequences for the opposite side.

When I say the opposite side, I mean the mining organization which is simultaneously the sole administrator

of "mineral wealth," in our case this means coal deposits in the allocated mining area. Here we have reached the core of the matter. The administrators of the deposit are operating with something that, as a natural resource, has no price. What relationship can an administrator have toward a deposit, when the end product of intensive mining activity, i.e., the extracted coal, is sold by him at a ridiculously low price, and when the coal reserves in the deposit, which was entrusted to him for free, also have no fixed value?

#### **Expensive Savings**

I consider the primary problem to be knowledge of the deposit. A prerequisite for economic development and extraction of the deposit is knowledge of its geological structure, and the extent and quantity of the crude minerals, commensurate with the level of exploration. The projections for the development, the development itself, and the mining are dependent on the level of data and reliable information about the deposit. Insufficient knowledge of the deposit may considerably affect productivity and utilization, and can even lead to not mining a part of the deposit. An important fact is that a large number of coal reserves in deposits is insufficiently explored for mining (on average only about one-third of the reserves, defined as assumed reserves, in 43 mined deposits is recorded in the lowest exploration category, C2); this is particularly important in deposits mined at a depth of around 1,000 meters. The statement: The greater the savings on exploration, the greater the expenses when mining, is applicable here, too.

When calculating the reserves and making a comprehensive evaluation of the deposit, mandatory geological, technological mining, and qualitative criteria are taken into consideration, so-called conditions, that determine the outer limits of input values to evaluate balance—i.e., practically utilizable—coal reserves (the limits of thickness, the quality of the raw material, the volume of harmful substances it contains, the depth of the deposit, and much more). However, the conditions applicable to date, did not include economic criteria. Unfortunately, both the comprehensive evaluation itself, including the calculation of reserves, and the quoted parameters generally are rather old, so that data on utilizable reserves have little informational value now. So far, on the whole, there has been considerable unwillingness to evaluate the deposit and its reserves more frequently, despite the fact that modern calculation techniques are available.

#### **Nonrenewable Resources**

Finally, we are getting to the resultant effect of the mining activity, in other words, with what technological knowhow are crude minerals mined, so that the loss of crude minerals left in the ground will be as small as possible. The rate of utilization of deposits and management of reserves was, admittedly, tracked in the administrative directive system, as is substantiated by various regulations and annual assessments, but the utilization was often assessed pro forma and rather liberally, since



the predominant criterion was, after all, the fulfillment of the mining plan and other indicators.

The "protection of deposits," which several institutions included in their activities, was never effective enough. The degree of exploitation of coal deposits in current mining studies for the period up to 2010, expressed by the share of expected market mining on the total decrease in balance reserves caused by this mining, continues to be estimated on average at 80 percent (at 55-65 percent in underground mines, at 93-95 percent in surface mines) and is stagnating approximately at the level attained in past years.

But it is not merely a matter of a decrease in reserves in relation to market mining as such. In essence, it is also a matter of the extent and rate of exhausting nonrenewable sources of energy and chemical raw materials. With a limited number of known and assumed reserves in deposits in mining, for example, the expected absolute loss in reserves caused by mining by 2010 (even if cut back considerably) would mean a decrease in balance reserves of about 50 percent compared to the state of these reserves at the beginning of 1983, and thus the day when the reserves of deposits being mined will be exhausted, is brought considerably closer.

Yet the greater part of the mined coal will continue to be burned in electrical heating plants and deposits will neither be protected nor reserved for future more efficient and better utilization. In this way we are drastically intervening in the ecological balance of a countryside that is already badly damaged by surface mining, the consequences of which cannot be prevented in any way by the administrator (e.g., prognoses expect that by 2010 there will be a volume of overburden in the North Bohemian coal region of about 4.3 billion m<sup>3</sup> and in the Sokol region of 0.9 billion m<sup>3</sup>). The administrator of the deposit, from whom a specific output is expected irrespective of the ecological consequences, has so far been in a passive position versus higher authorities.

#### Underestimation of Raw Materials

The examples mentioned should be sufficient to illustrate the consequences that result from underestimating crude minerals. Thus I superficially touched on several complex groups of problems, which will have to be dealt with rigorously, on the one hand by the administrators of the deposits, and on the other by those institutions that are authorized to create prices, if the paradoxical situation that mineral wealth is the source of loss and poverty is to be removed. Specific ideas on how to improve the present situation already exist.

The Research Institute of the Fuel and Electric Power Complex in Prague is preparing a draft for usable economic criteria for the conditions to evaluate coal deposits (criteria that will enable the estimation of the economic capability of mining deposits, and that take world prices of raw materials for energy into account). In the past, the Institute already made several suggestions, recommending that the relevant department introduce a

mining returns tax in enterprises in the coal industry, and utilize standard prices of coal in the completed system.

The suggested recommendations, on the one hand aim at purposeful economic pressure for the rational utilization of coal deposits, and thus also at an increase in the interest in entrusted deposits on the part of their administrators, and on the other hand at instituting healthier value criteria and profit creation in the coal industry. Removing the value deformations will not be easy in this sector of the national economy either but it is extremely urgent.

## HUNGARY

### Communications Equipment Manufacturer Interviewed

91CH0020A Budapest FIGYELO in Hungarian  
6 Sep 90 p 31

[Interview with BHG (Beloianisz Híradástechnikai Gyar [Beloianisz Telecommunications Factory]) president Laszlo Mikics by P.E.; place and date not given: "BHG's Last Hope—Deserted?"—first paragraph is FIGYELO introduction]

[Text] Apparently, participation in the telecommunications program may become a turning point in a few Hungarian firms, including BHG. Improvement of its critical financial situation depends on how large a slice of the digital telephone switchboards it can cut. "Where does the factory have an advantage over its competitors?" we asked Laszlo Mikics, BHG's director general.

[Mikics] Its advantage is that already four years ago it purchased the license for ADS, an up-to-date system, from Telecom, the Austrian partner of the Canadian firm Northern Telecom. Since then, the system has been examined and adapted for the Hungarian network. The factory is ready for production to the point of being able to deliver a digital telephone switchboard of as many as 100,000 lines by next year. I do not think any of our competitors could do this despite help from Siemens, SEL and Samsung. They simply have not yet come far enough in their preparations.

[P.E.] But it was precisely these preparations that resulted in BHG's critical situation. It invested a billion forints, purchased production equipment, and took the risk without clearly seeing the market.

[Mikics] I see this in an entirely different way. When, in 1986, we signed the agreement with Telecom and the Post Office which still had official authority, this move was nothing less than a change of systems. We not only bought the license for ADS together with the related know-how, but the Post Office ordered 10 100,000-line switchboards from Austria Telecom, precisely to build a network and to gain operational experience. These are good but we still have not received any orders. I think

that that move by the Post Office can be interpreted as its desire to use this system in its program of telecommunications development. Consequently, BHG should not be brought into a situation in which, after preparing for a task in accordance with that decision, it would now go bankrupt because of a lack of orders.

[P.E.] Do you think, then, that the technology for the development of telecommunications has already been determined? Have you decided on the ADS system?

[Mikics] At the beginning, Austria Telecom was not the only firm that was considered, but it was the only firm willing to sign a license agreement for delivering digital telephone switchboards still banned at that time by the COCOM, hoping for the ease-off that was expected two years later. In other words, it based its research and development on a risky business deal which was also indicated, of course, by its then-current prices. Since then, however, it lowered its prices, and charges for its recent shipments were quite acceptable. Incidentally, I do not see why one should give up a 100,000-line network which is already functioning to everyone's satisfaction. This move should be handled as if the system for the main switchboards were already chosen and now bidding on a system for the regional switchboards were announced. Two digital systems coexist even in countries with highly developed telecommunications. Incidentally, BHG has the technology for connecting ADS to the traditional ARM Crossbar switchboard.

[P.E.] Why does BHG depend so much on the domestic market? If it is so well prepared technologically, why could it not export to the West or the East? After all, the Crossbar switchboards in some CEMA countries were installed by BHG.

[Mikics] Although ADS is a common system with 40 million lines around the world, it must be adapted to each country's characteristic network. We cannot afford hundreds of millions at this time for adaptations while lacking a stable market background here at home. Had we had this background, we would produce enough profit to include significant research and development, and then we could think of other markets. As far as the East European countries are concerned, the GDR has been a traditional market but, since the idea of reunification, Siemens and SEL have been competing with each other to gain this market, with their EWSD and System 12, respectively. In Czechoslovakia, our other significant market, the system to be selected is now under consideration. There, too, large western firms are establishing joint companies with domestic manufacturers in order to gain some advantage. This is why the role of BHG in the GDR and Czechoslovakia can only be that of expanding the existing system.

**Trend in Profits Made by  
the Telephone Services  
(million forints, 1990 data  
in 1989 prices)**

Item	Actual in 1985	Expected in 1990	Percent Between 1990 and 1985
Revenues	8,580	17,033	198.5
Expenditures	4,785	11,343	237.1
Profits	3,795	5,690	149.9

**Data for a Single Main Switchboard  
(forints for one switchboard,  
1990 data in 1990 prices)**

Item	Actual in 1985	Expected in 1990	Percent Between 1990 and 1985
Revenues	11,613	17,798	153.3
Expenditures	6,477	11,853	183.0
Profits	5,137	5,946	115.7

[Box, p. 31]

**Minimal Program—How Will 84 Billion Be Raised?**

Minister Csaba Siklos announced recently the three-year short-range program of telecommunications development. Accordingly, 520,000 main telephone lines will be installed through this 84-billion program.

How will this 84 billion be raised? As we know, this investment program is calculated in 1989 prices, and can be considered limited in comparison with earlier ones. The program was cut back in part on the basis of the opinion of World Bank experts. According to several Hungarian experts, such a large development project (to be considered more like a minimal program) can in fact be implemented, but there is still much uncertainty regarding the kinds of resources.

The program specifies a development that will cost 26 billion forints in 1991, then 31 billion forints, and 27.5 billion forints in 1992. Because of a complete absence of state subsidies, Telecommunications Enterprise will rely mainly on its own resources, to be increased through higher service charges, tax allowances on profits, and preferential accounting of depreciation.

The difficulty stems from the fact that while the use of significant amounts of foreign capital was expected earlier, this cannot be implemented until the end of next year because of the present atmosphere of privatization. Thus, according to various calculations, there still is a shortage of 8 to 12 billion forints for the initial year.

What is now certain is a credit of 150 million dollars from the World Bank and another one of 100 million dollars from European investment banks. According to our information, the World Bank credit would start with

a larger sum in the initial period that would decrease over time; the other banks would work the opposite way. These two sources are expected to provide currency credits of 6.8 billion forints during the first year, 4.8 billion forints in 1992, and 3.7 billion forints in 1993. Of the other possible sources of foreign credit, Telecommunications Enterprise is planning to issue securities in the amount of 200 million deutsche marks in the FRG.

## POLAND

### Minister of Finance Signs Act Creating First Development Bank

91EP0029B Warsaw GAZETA BANKOWA in Polish  
No 40, 30 Sep-6 Oct 90 p 15

[Article by (IR): "The Development Bank"]

[Text] On 11 September the minister of finance signed the notarized founding document for the country's first financial institution of the development bank type. The Polish Development Bank, Limited, is to emulate similar institutions operating in West Europe and the countries of Southeast Asia. Its purpose is to sponsor projects for restructuring the economy. The bank's share capital of 800 billion zlotys derives and shall continue to derive from the state budget funds earmarked for restructuring the economy (for this year it was 200 billion zlotys), but there exists a possibility for augmenting it by issuing new shares.

The Polish Development Bank, which will start operating early next year, will gradually take over the functions of the Polish National Bank as regards the servicing and redistribution of the funds of the World Bank and

the European Bank for Reconstruction and Development allocated for restructuring the Polish economy. It will engage in loan activities also through the mediation of commercial banks, while reserving to itself the financing of major state-sector projects.

One of the financial institutions interested in collaborating with the Polish Development Bank is France's Credit National, whose board of governors has already resolved to be a partner in this project. While the French partner will not be a major shareholder, its organizational experience and technical assistance should be useful. It will provide assistance in training the personnel of the Polish Development Bank and send to Warsaw experts in finance, banking, accounting, and computer technology. Credit National's declaration of intent has been followed by a similar offer from an Austrian bank, Credit Invest.

The EC [European Community], which has from the beginning been interested in the project to establish a development bank in Poland, has announced its informal participation, probably in the form of a long-term deposit which will be treated as quasi-charter capital of the bank.

The Polish Development Bank is also being established owing to the needs of foreign financial institutions for a bank which would conveniently fill the gap between the central bank [Polish National Bank] and commercial banks. In the countries in which development banks operate, they are partners of such institutions as the World Bank or the EC in sponsoring restructuring projects. For the time being the Polish Development Bank is a joint-stock company owned by the State Treasury, but in the future it is to become a company in which shares will be held by foreign development banks and eventually gminas [rural township governments] and territorial [gmina] associations.

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